

**RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012



A Limited Liability Partnership

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RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report

Board of Directors
Rhode Island Turnpike and Bridge Authority
Jamestown, Rhode Island

We have audited the accompanying basic financial statements of the Rhode Island Turnpike and Bridge Authority (the Authority), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

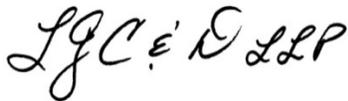
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Turnpike and Bridge Authority as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

Board of Directors
Rhode Island Turnpike and Bridge Authority

Accounting principles generally accepted in the United States require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Handwritten signature in black ink, appearing to read "LGC & D LLP".

September 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Rhode Island Turnpike and Bridge Authority (the Authority) is a quasi-public agency created by the Rhode Island General Assembly in 1954 to maintain and operate the Claiborne Pell Bridge (Pell Bridge), on the west shore of Narragansett Bay (the Bay) which connects the City of Newport and Town of Jamestown, and the Mount Hope Bridge, on the east shore of the Bay which connects the Towns of Bristol and Portsmouth, Rhode Island. Day-to-day operations of the Authority are led by an Executive Director who oversees 65 employees and reports to a five-member Board of Directors (Board) comprised of the Director of Transportation, who is a member ex-officio, and four members appointed by the Governor. For over 50 years, the Authority has been committed to maintaining and operating the Pell and Mount Hope Bridges in a fiscally responsible manner that ensures their physical integrity and longevity.

This discussion and analysis of the Authority's financial position and performance provides information as of June 30, 2012 and for the year then ended, with comparison as deemed appropriate to the previous fiscal year ended June 30, 2011. Readers are encouraged to utilize this document in conjunction with their review of the Authority's financial statements.

During fiscal 2012 (FY2012), there were no significant changes to the Authority's financing structure, accounting methods, or the manner in which activity is recorded and summarized for presentation.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's annual financial statements consist of three parts: management's discussion and analysis, the basic financial statements with note disclosures, and supplementary information.

The basic financial statements report information about the self-supporting activities of the Authority funded primarily by toll revenue. They consist of a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows, all of which are supported by Notes to the Financial Statements.

The financial statements provide indications of the Authority's financial health. The Statement of Net Assets summarizes all of the Authority's assets and liabilities (on the accrual basis of accounting) as of the fiscal year-end date, and indicates which assets can be used for general purposes and which are restricted by bond covenants as to their use. The Statement of Revenues, Expenses and Changes in Net Assets reports revenues earned and expenses incurred during a fiscal year. In addition to reporting cash provided and used by operating activities, the Statement of Cash Flows also reports other cash sources, such as investment income, and other cash uses, such as the purchase of capital additions and the repayment of bond principal and interest obligations.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Authority, its accounts are classified, for internal accounting purposes, into a number of separate funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS AND OPERATIONAL SUMMARIES

Activity and Year-End Financial Position

The Authority's total net assets increased in 2012 by \$4.4 million, or 4.4%, which consisted of an increase in total assets of \$10.3 million and an increase in total liabilities of \$5.9 million. The increase in net assets is due to an increase in the value of capital assets due to the current construction being performed on the bridges, offset by a decrease in cash and investments. The \$36.6 million increase in capital assets is attributable to projects underway as part of the Authority's ongoing capital improvement program, net of \$5.9 million of depreciation.

A comparative summary of the Authority's net assets is shown below (dollars in thousands):

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
<i>Statements of Net Assets</i>				
Assets:				
Capital assets (net)	\$ 135,977	72.8%	\$ 99,354	56.2%
Other:				
Investments	42,693	22.9%	67,718	38.4%
Cash and cash equivalents	6,274	3.3%	7,545	4.3%
Other	1,796	1.0%	1,810	1.1%
	<u>50,763</u>	<u>27.2%</u>	<u>77,073</u>	<u>43.8%</u>
Total assets	<u>186,740</u>	<u>100.0%</u>	<u>176,427</u>	<u>100.0%</u>
Liabilities:				
Noncurrent, bonds payable	63,634	34.1%	66,089	37.5%
Other liabilities	17,934	9.6%	9,588	5.4%
Total liabilities	<u>81,568</u>	<u>43.7%</u>	<u>75,677</u>	<u>42.9%</u>
Net assets:				
Invested in capital assets, net of related debt	58,838	31.5%	65,782	37.3%
Restricted under bond covenants	14,248	7.6%	11,865	6.7%
Unrestricted	32,086	17.2%	23,103	13.1%
Total net assets	<u>\$ 105,172</u>	<u>56.3%</u>	<u>\$ 100,750</u>	<u>57.1%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Assets

Operating results are discussed in the *Operating Results* section below. A condensed summary of activity follows (dollars in thousands):

	2012		2011	
Operating revenues:				
Toll revenues	\$ 18,303	97.2%	\$ 18,236	97.2%
Transponder revenues	436	2.3%	433	2.3%
Statement and bank fees	85	.5%	96	.5%
Total operating revenues	18,824	100.0%	18,765	100.0%
Operating expenses:				
Personnel services	2,920	15.5%	3,054	16.3%
Insurance	797	4.2%	907	4.8%
Repairs and maintenance	1,892	10.1%	1,023	5.4%
Other	2,176	11.6%	2,434	13.0%
Transponder expense	309	1.7%	431	2.3%
Depreciation	5,861	31.1%	4,508	24.0%
Legal settlement expense	(260)	(1.4)%	1,200	6.4%
Total operating expenses	13,696	72.8%	13,557	72.2%
Operating income	5,128	27.2%	5,208	27.8%
Nonoperating expenses, net	(706)	(3.7)%	(487)	(2.6)%
Change in net assets	4,422	23.5%	4,721	25.2%
Net assets, beginning of year	100,750		96,029	
Net assets, end of year	\$ 105,172		\$ 100,750	

The Authority had a .4% increase in toll revenues as a result of a slight increase in traffic volumes as well as the residual effect of the fare increase put into effect in September 2009. The E-ZPass customer service center, transaction processing charges and other toll collection expenses totaled approximately \$1,464,000. The Authority continually monitors both staffing in the customer service center and the lanes in the toll plaza to ensure the proper level of staff to service its customers.

Tolls and Operations

The Claiborne Pell Bridge toll schedule is based upon financial obligations of the Authority. Toll rates are set at a level sufficient to fund ongoing operations, debt service (including reserves), capital improvements, and regular maintenance of the Authority's capital assets. Tolls were removed from the Mount Hope Bridge effective May 1, 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Tolls and Operations (Continued)

In 2009, a consultant was hired to conduct a traffic and revenue study to determine the amount of revenue required to meet the financial needs of the Authority. As a result, the \$1 per axle cash toll at the Pell Bridge was increased to \$2 per axle in September 2009, the first increase since the structure opened to traffic in 1969. A schedule of proposed future rate increases was also included in that study.

In December 2008, the Authority implemented E-ZPass, the electronic toll collection system. The conversion to E-ZPass was completed in January 2009. The cash rate for passage is \$2 per axle. The rate for a Rhode Island resident with a Rhode Island transponder is \$.83. Through January 2010, a commuter rate for out-of-state residents with a Rhode Island transponder was established at \$.91 if they made 31 trips in a 30-day period. This program was replaced in February 2010 with a six trip rate of \$5.46 to be completed in 30 days. An unlimited plan for Rhode Island residents was introduced for \$40, to be completed in 30 days. The rate for out-of-state E-ZPass transponders was set at \$1.75 and increased to \$4 on September 2, 2009.

A customer service center, including a walk-in center and a call center, is set up in Jamestown adjacent to the toll plaza where E-ZPass applications are processed, transponders are sold and accounts replenished. Transponders are sold at cost for \$20.95. As of June 30, 2012, the Authority had sold approximately 132,888 transponders.

In September 2008, the Authority entered into a three-year contract with Affiliated Computer Services of Newark, New Jersey to process E-ZPass transactions, open and close accounts online, maintain the account information database, distribute transponders, and resolve disputes between E-ZPass Agencies. This contract has been extended through September 2012.

The operations department is responsible for the collection of tolls from motorists passing through the Authority's toll plaza in Jamestown, adjacent to the Pell Bridge. The department is headed by a Director of Operations, who is assisted by a number of supervisors in order to operate the facility 24 hours per day, 365 days per year. The department employs approximately 32 full and part-time toll collectors throughout the year, all of whom are covered under a collective bargaining agreement, as well as non-union casual collectors utilized primarily during the busy tourist season of May 30 through October 12. With the introduction of E-ZPass, monitors were placed in the lanes to assist motorists encountering problems. Supervisors are responsible for the smooth operation of all activity during weekdays, and during nights and weekends are also responsible for reporting to the bridge and all Authority buildings and grounds to investigate unusual occurrences and to maintain a safe environment for motorists. The Rhode Island State Police is summoned when circumstances dictate, and also undertakes routine patrols at the toll plaza and elsewhere adjacent to the bridges, especially during weekend evenings during the summer. This is done in cooperation with local police and EMTC services provided by the municipalities of Jamestown, Newport, Bristol, and Portsmouth.

In June 2012, the Authority initiated Open Road Tolling (ORT) lanes on the Pell Bridge. These lanes, one east-bound and one west-bound, allow vehicles with an E-Z Pass transponder to travel through the toll plaza at normal travel speeds without stopping at a gated toll booth.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Results

Pell Bridge Traffic and Revenue Summary

Traffic and revenue statistics are as follows:

	2012		2011	
Traffic (number of passages)				
Vehicle fares paid with ETC	8,475,863	83.7%	8,215,413	82.4%
Vehicle fares paid with cash	1,656,460	16.3%	1,753,248	17.6%
	<u>10,132,323</u>	<u>100.0%</u>	<u>9,968,661</u>	<u>100.0%</u>
	2012		2011	
Revenue				
Vehicle fares paid with ETC	\$11,548,624	63.1%	\$11,091,837	60.8%
Vehicle fares paid with cash	6,754,491	36.9%	7,144,056	39.2%
	<u>\$18,303,115</u>	<u>100.0%</u>	<u>\$18,235,893</u>	<u>100.0%</u>

Pell Bridge traffic increased during 2012 by 163,662 passages, or 1.64%, compared to the previous year. Revenue increased by \$67,222, a 0.37%, increase that is directly attributed to the increase in traffic. There continues to be a shift from cash tolls to Electronic Tolls (ETC) with ETC tolls increasing to 63.1% of revenue, an increase from 60.8% in FY2011.

Engineering and Maintenance

The head of the engineering department is a Director of Engineering who oversees all capital construction activities on behalf of the Authority. In addition, under the Director of Engineering, separate consulting engineering firms, including on-call contracting firms, have been engaged to manage projects undertaken on each structure. Each bridge is subjected to an annual inspection, and a more thorough and complete "in-depth" inspection is performed on each structure every two years.

The Board hired a nationally recognized firm to conduct a risk management study to evaluate the Authority's procedures to avoid, prepare for and respond to natural and manmade concerns. The firm made recommendations to improve the safety and security of the bridges. The Authority has hired a security consultant and has begun implementing these recommendations.

Approximately 73% of the Authority's assets are capital assets, most notably the two largest suspension bridges in New England, the operation and maintenance of which the Authority has been charged. In order to continue to protect these assets for the foreseeable future, the Authority's Board (Board) bi-annually revises its ten-year Renewal and Replacement Plan. In FY2012, the Board approved an updated 10-year Capital Improvement Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Engineering and Maintenance (Continued)

During FY2012, the Authority continued its preventive maintenance programs for both the Pell and Mount Hope Bridges, which are designed to ensure the safety, security, and aesthetics of the structures while generating long-term savings for the Authority. As part of this effort, a number of Authority staff have been assigned additional duties, including preventive maintenance of bridge bearings; repair of potholes on approach roads; preventive corrosion treatment on bridges; snow removal at the toll plaza; lawn maintenance, routine inspection on expansion and contraction components of bridges; painting of bridge rails and building interiors; and signage maintenance on bridges.

Capital and Construction Activities

Under the current Ten-Year Renewal and Replacement Plan, the Board has approved \$161.7 million allocated to the Pell Bridge, and \$47.8 million toward Mount Hope Bridge projects. Major capital improvement projects in progress during fiscal 2012 included the following:

Mount Hope Bridge

- Tower bases rehabilitation project
- Ongoing on-call maintenance of concrete deck and structural steel components
- Design steel repair and protective coating for the north approach

Newport/Pell Bridge

- Repairs of the center span of the steel superstructure
- Painting of the center span of the steel superstructure
- Continued patching and sealing of roadway
- Construction for the suspended spans
- Design of bridge painting and steel repairs for the approach spans

Administration Building

In FY2012, the Authority underwent renovations on its administration building. The renovated building was occupied in July 2012.

Open-Road Tolling Lanes

In February 2012, the Authority entered into a public-private partnership to renovate the toll plaza on the Pell Bridge to accommodate open-road tolling (ORT).

This project consisted of reconfiguring the toll plaza from 12 lanes to 10, with the two middle lanes (one eastbound and one westbound) being converted to ORT. The tollbooths were removed and replaced with a gantry equipped with transponder readers and cameras to capture electronic tolls and pictures of all vehicles traveling through the lane for those vehicles that do not register an electronic read for invoicing.

The remaining eight lanes were outfitted with new tollbooths, the lanes repaved, and a tunnel was constructed beneath the lanes to allow Authority personnel access to the eastbound lanes without having to cross traffic.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Open-Road Tolling Lanes (Continued)

This project was initially funded by the private partner through a license-lease agreement with the Authority. Subsequent to year-end, the Authority reimbursed the private partner \$5,200,000, consisting of its project-related costs, plus interest and expenses.

The Authority has entered into various contracts for ongoing improvements to the bridges and property, including one for approximately \$41 million for painting and steel repairs on the Pell Bridge. This project is ongoing and is scheduled to be completed over a two-year period. The remaining commitment under the contract is approximately \$7.5 million at June 30, 2012. The Authority has also entered into a \$7.1 million contract for painting and steel repairs to the Mount Hope Bridge. This contract is in the mobilization phase.

Additionally, the Authority has entered into contracts to provide for the maintenance of the Bridges. As of June 30, 2012, remaining commitments on these contracts approximated \$1.4 million.

Finance and Accounting

Finance and accounting functions are headed by a Chief Financial Officer who is responsible for maintaining the Authority's books and records and for adhering to covenants and other requirements of agreements entered into with bondholders.

Debt Service

At June 30, 2012, approximately 81% of the Authority's liabilities are debt service obligations entered into during 2003 and 2010. The total 2003 Series A bond issuance raised \$35,765,000. Principal payments are due annually, and interest payments semiannually, until maturity in 2017. The 2003 Series A bonds are not subject to optional redemption prior to maturity. In April 2010, the Authority sold revenue bonds in the amount of \$50,000,000, which mature in 2039. Principal payments have been deferred until 2017, when the 2003 Series A bonds mature. Principal payments on the revenue bonds during 2012 totaled \$2,370,000.

In accordance with the trust agreement entered into between the Authority and BNY Mellon, the trustee, debt service obligations (monthly deposits of toll revenues made into separate principal, interest, and debt service reserve accounts held by the trustee) were made during FY2012 on a timely basis. Compliance with restrictions and covenants stipulated in the trust agreement was monitored during the year by the Authority. The State of Rhode Island has authorized the Authority to issue approximately \$68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Investments

Approximately 22.9% and 38.4% of the Authority's assets consist of investments at June 30, 2012 and 2011, respectively, including the proceeds from the sale of the bonds. Under the trust agreement referenced above, "moneys in all funds and accounts shall be invested by the holder of such Fund or Account as soon as practicable upon receipt in Permitted Investments..." The definition of Permitted Investments includes mostly highly-rated fixed-income securities. At June 30, 2012, 54.7% of the Authority's investments are in the form of money market mutual funds; U.S. Treasury obligations represent approximately 13.2% and U.S. Government sponsored asset-backed securities represent approximately 3.4% of total investments. Approximately 15.4% of the Authority's investments are in corporate bonds.

Insurance Cost-Saving Initiatives

Insurance continues to be among the Authority's most significant operating expenses. In January 2005, management and the local collective bargaining unit cooperated in an effort to control health care costs while maintaining the current level of service. The Authority entered into a three-year contract with the union, effective July 1, 2012, and received increases in the employees' premium co-pays each year during the term of the contract. The current contract expires June 30, 2014.

The Authority maintains property and casualty insurance coverage as deemed appropriate in consultation with an insurance industry expert. In fiscal year 2008, in order to contain the cost of insuring the bridges, the Board increased the deductible on the marine insurance on the bridges. In FY2012, the Authority competitively bid the commercial insurance policies. The result was significant savings on the property coverage for the bridges with a two-year premium guarantee, resulting in approximately \$180,000 of savings in insurance expense. The Board continues to work to find ways to decrease insurance costs.

Community Involvement

The Authority continues to maintain its relationships with its host communities of Bristol, Jamestown, Newport, and Portsmouth, Rhode Island. The Authority takes an active role with community organizations and continues to make marketing-related sponsorships of cultural and other events in its host municipalities, which it believes contribute directly to an increase in bridge traffic, especially from local patrons.

A lease agreement for use of the Mount Hope Bridge's former Gatekeeper's House with Roger Williams University continues to result in a favorable arrangement for both parties. Capital improvements and annual operating and maintenance costs of this facility, which were previously the responsibility of the Authority, have been assumed by the university, which houses its alumni relations offices in the building. The Authority continues to evaluate its operational and physical needs in Bristol, Rhode Island.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Legislative Initiatives

In June 2012, the Rhode Island General Assembly passed the FY2013 state budget, which included an article that will allow for the transfer of the Sakonnet River and Jamestown/Verrazano Bridges to the Rhode Island Turnpike and Bridge Authority from the Rhode Island Department of Transportation. The process to effect that transfer will begin in FY2013.

Requests for Information

This financial report is designed to provide a general overview of the Authority and its finances. Questions about any of the information contained in this report and requests for additional information may be addressed to the Executive Director at: Rhode Island Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF NET ASSETS – JUNE 30, 2012

ASSETS:

Current assets:

Cash and cash equivalents	\$ 1,997,093
Accounts receivable	744
Accrued interest receivable	134,704
Prepaid expenses	78,868
Inventory	79,043
Investments	2,686,441
Restricted:	
Cash and cash equivalents	4,277,219
Investments	10,824,729
Accounts receivable	524,739

Total current assets 20,603,580

Noncurrent assets:

Investments, less current portion	16,168,427
Restricted investments, less current portion	13,013,140
Bond issuance costs, net	977,445
Capital assets not being depreciated	4,462,949
Capital assets being depreciated, net	131,514,330

Total noncurrent assets 166,136,291

Total assets 186,739,871

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF NET ASSETS – JUNE 30, 2012 (CONTINUED)

LIABILITIES:

Current liabilities:

Accounts payable	\$ 6,516,038
Accrued interest payable	278,118
Accrued expenses	4,958,839
Electronic toll liability	2,799,485
Current portion of bonds payable	2,475,000
Legal settlement liability	<u>906,151</u>

Total current liabilities 17,933,631

Bonds payable, less current portion 63,634,022

Total liabilities 81,567,653

Commitments and contingencies (Notes 5 and 8)

NET ASSETS:

Invested in capital assets, net of related debt	58,838,181
Restricted, bond covenants	14,248,472
Unrestricted	<u>32,085,565</u>

Total net assets \$ 105,172,218

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012

Operating revenues:	
Tolls	\$ 18,303,115
Transponder sales	436,304
Fees	<u>85,074</u>
Total operating revenues	<u>18,824,493</u>
Operating expenses:	
Personnel services	2,920,029
Utilities	118,230
Contractual services	1,584,787
Other supplies and expenses	473,616
Insurance	797,864
Repairs and maintenance	1,892,360
Transponder expense	308,620
Legal settlement	(259,665)
Depreciation	<u>5,860,763</u>
Total operating expenses	<u>13,696,604</u>
Operating income	<u>5,127,889</u>
Nonoperating revenues (expenses):	
Interest expense	(2,206,927)
Amortization of bond issuance costs	(47,504)
Amortization of bond discount	(43,954)
Investment income, net of trustee fees	1,004,653
Grant revenue	490,000
Miscellaneous income	<u>98,019</u>
Total nonoperating revenues (expenses)	<u>(705,713)</u>
Change in net assets	4,422,176
Net assets, beginning of year	<u>100,750,042</u>
Net assets, end of year	<u><u>\$ 105,172,218</u></u>

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Cash received from:	
Tolls	\$ 18,563,552
Transponder sales	436,304
Other	85,074
Cash payments to:	
Suppliers for goods and services	(5,108,160)
Employees for services	(2,883,680)
	<hr/>
Net cash provided by operating activities	11,093,090
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(34,240,280)
Principal paid on bonds	(2,370,000)
Bond discounts	(14,492)
Interest paid on bonds	(2,230,959)
Grant proceeds	490,000
	<hr/>
Net cash used in capital and related financing activities	(38,365,731)
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Cash flows from investing activities:	
Proceeds from sales and maturities of investments	36,523,230
Purchases of investments	(11,497,994)
Investment income received	976,461
	<hr/>
Net cash provided by investing activities	26,001,697
	<hr/>
Net decrease in cash and cash equivalents	(1,270,944)
Cash and cash equivalents, beginning of year	7,545,256
	<hr/>
Cash and cash equivalents, end of year	\$ 6,274,312
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RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 5,127,889
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,860,763
Legal settlement liability	(293,849)
Miscellaneous income	98,020
Changes in assets and liabilities:	
Accounts receivable	(87,117)
Inventory	43,034
Prepaid expenses	38,490
Accounts payable	(78,043)
Accrued expenses	36,337
Prepaid and unredeemed tolls and tokens	<u>347,566</u>
Net cash provided by operating activities	<u><u>\$ 11,093,090</u></u>

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. Description of business and summary of significant accounting policies:

Description of business:

The Rhode Island Turnpike and Bridge Authority (Authority) was created in 1954 by the Rhode Island General Assembly as a body corporate and politic, with powers to construct, acquire, maintain, and operate bridge projects as defined by law. The Authority was responsible for the construction of the Claiborne Pell Bridge (formerly the Newport Bridge), which was opened for traffic on June 28, 1969, and has been responsible for the operation and maintenance of the Mount Hope Bridge between Bristol, Rhode Island and Portsmouth, Rhode Island and the Claiborne Pell Bridge between Newport, Rhode Island and Jamestown, Rhode Island since 1964 and 1969, respectively. The Claiborne Pell Bridge and the Mount Hope Bridge are collectively referred to herein as the bridges.

The Authority is a component unit of the State of Rhode Island (State) for financial reporting purposes and, as such, the financial statements of the Authority will be included in the State's Annual Financial Report.

The Authority is exempt from federal and state income taxes.

Basis of accounting:

The Authority engages only in business-type activities, which are activities that are financed in whole or in part by fees charged to external parties.

Accounts of the Authority are maintained in compliance with the provisions of the Master Indenture of Trust (the Trust Agreement) entered into with the Trustee of the bonds. The Trust Agreement secures the Authority's revenue bonds and requires that the accounting policies of the Authority conform to accounting principles generally accepted in the United States as applied to governmental entities.

The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all assets and liabilities associated with operations are included on the statement of net assets, revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Description of business and summary of significant accounting policies (continued):

Basis of accounting (continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the accompanying financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Authority has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to this same limitation; however, the Authority has elected not to follow subsequent private-sector guidance.

Operating and nonoperating revenues and expenses:

Operating revenues and expenses result from providing services for the ongoing operations of the bridges. The principal operating revenue of the Authority is the collection of toll revenue from the users of the Claiborne Pell Bridge. Operating expenses include all expenses for the ongoing management and maintenance of the bridges. Nonoperating revenues and expenses include all items that do not meet the definition of operating revenue and expenses.

Cash and cash equivalents:

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments:

Investments are recorded at fair value, except for money market investments (for example, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less and nonparticipating interest-earning investment contracts (for example, certificates of deposit) which are recorded at amortized cost. At June 30, 2012, all investments are reported at fair value.

Restricted assets:

Certain assets have been restricted in accordance with the provisions of the Trust Agreement and are classified as either current or noncurrent based on the maturities of the underlying securities.

Inventory:

Inventory consists of E-ZPass transponders valued at cost using the first-in, first-out (FIFO) method.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Description of business and summary of significant accounting policies (continued):

Capital assets:

All capital assets are stated at cost. The Authority capitalizes substantially all assets acquired with an original cost basis in excess of \$10,000 for equipment and \$25,000 for bridge and building improvements which have an estimated useful life in excess of one year. The cost of the Claiborne Pell Bridge includes engineering, legal, financial, administrative and other costs incident to the construction of the bridge, less income earned on certain investments during construction. The cost of the Mount Hope Bridge is the amount previously carried on the records of the former Mount Hope Bridge Authority. All capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

Bridges and bridge improvements	10-100 years
Buildings and land improvements	8-30 years
Equipment	3-20 years

Intangible assets:

Intangible assets, reported within capital assets, are comprised of licensing fees that do not expire unless certain contractual obligations are broken and are therefore reported at cost with no amortization.

Bond issuance costs:

Bond issuance costs are amortized on a straight-line basis over the life of the related bond (14-½ years and 29-½ years for 2003 and 2010 bond issuances, respectively). At June 30, 2012, bond issuance costs and accumulated amortization total \$1,183,417 and \$205,972, respectively.

Bond discounts:

Bond discounts are amortized on a straight-line basis over the life of the related bond (14-½ years and 29-½ years for the 2003 and 2010 bonds, respectively). At June 30, 2012, bond discounts and accumulated amortization total \$1,043,533 and \$213,378, respectively. Bond discounts, net of accumulated amortization, are presented in the accompanying financial statements as a component of bonds payable.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Description of business and summary of significant accounting policies (continued):

Deferred gain on refunding:

The deferred gain on refunding is amortized on a straight-line basis over the life of the 2003 bond (14-½ years). At June 30, 2012, deferred gain on refunding and accumulated amortization was \$348,464 and \$214,287, respectively. The deferred gain on refunding, net of accumulated amortization, is presented in the accompanying financial statements as a component of bonds payable; annual amortization of the deferred gain is reported as a reduction of interest expense.

Revenue recognition and E-ZPass:

The Authority uses an automated electronic toll collection system (E-ZPass) which uses transponders to identify vehicles passing through a toll plaza. Upon enrolling in E-ZPass, customers purchase transponders from the Authority. Upon initial enrollment, and subsequently when minimum dollar maintenance requirements are met, customers fund dollars on their transponders. Prepaid toll receipts are recorded by the Authority as an electronic toll liability until the customer completes a toll transaction. Upon completion of a toll transaction by a customer, the Authority records revenue for crossing the Claiborne Pell Bridge or records a liability payable to another state for a vehicle crossing another state's toll plaza using a transponder issued by the Authority, charges the customer's account, and reduces the electronic toll liability. The Authority records revenue and a related receivable from another state for customers crossing the Claiborne Pell Bridge using a transponder issued by another state. Toll charges received in cash for crossing the Claiborne Pell Bridge are recorded as revenue when collected.

Revenue from grants is recognized as the expenditures under such grants are made.

Investment income:

Investment income includes unrealized gains and losses recorded to present investments at fair value.

Accrued sick and vacation:

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then current rates of pay. The amount accrued at year-end includes unused vacation and sick leave earned at the employees' current rates of pay, subject to the applicable limitations.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Description of business and summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets:

The Authority's net assets have been segregated into the following three components:

Invested in capital assets, net of related debt – represents the net book value of all capital assets less the outstanding balances of bonds and other debt used to acquire, construct or improve these assets

Restricted – those that have been limited to uses specified either externally by creditors, contributors, laws, or regulations of other governments or internally by enabling legislation or law

Unrestricted – a residual category for the balance of net assets

2. Cash and investments:

The Trust Agreement specifies the permitted investments that may be used by the Authority. In addition, the State of Rhode Island requires that certain uninsured deposits be collateralized. Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its federal regulator must be collateralized.

Deposits:

The carrying amount of the Authority's cash and cash equivalents at June 30, 2012 was \$6,274,312, while the bank balance was \$9,388,651. Of the bank balance, \$7,772,189 was covered by federal depository insurance; and \$1,587,189 was held in fully collateralized repurchase agreements. The remaining balance of \$29,273 is uncollateralized.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. Cash and investments (continued):

Investments:

At June 30, 2012, the Authority's investments, including restricted amounts, consisted of the following:

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Money market funds	<u>\$ 23,336,293</u>			
United States Treasury/Agency securities:				
United States Treasury Notes	4,789,665	* 0.25% to 3.75%	1/15/15 to 5/15/22	AAA
United States Treasury Inflation Indexed Bonds	859,359	0.625% to 2.375%	1/15/17 to 1/15/27	AAA
Federal National Mortgage Association Federal Home Loan Mortgage Corporation	601,473	0.475% to 1.0%	9/16/13 to 5/29/15	AAA
Federal Farm Credit Bank	425,554	0.625% to 1.1%	8/8/14 to 8/21/15	AAA
Federal Home Loan Bank	135,792	0.5% to 1.125%	2/27/14 to 6/23/15	AAA
	155,104	0.375%	11/23/13	Aaa
	<u>6,966,947</u>			
Corporate bonds:	96,724	4.5%	1/15/20	AAA
	294,003	2.0% to 5.25%	10/13/15 to 5/24/41	AA3
	1,637,912	1.25% to 7.717%	6/28/13 to 1/27/21	AA2
	957,879	2.5% to 6.375%	3/15/15 to 5/8/22	A3
	579,462	1.375% to 6.25%	6/30/15 to 4/15/18	A2
	1,167,973	2.5% to 6.75%	3/1/14 to 10/1/37	A1
	1,410,883	3.125% to 8.5%	7/1/13 to 8/15/22	BAA1
	444,029	3.0% to 5.75%	5/16/14 to 6/12/17	BAA3
	<u>6,588,865</u>			
Short-term taxable fixed income	<u>501,576</u>			N/A
Municipal and other local government bonds	<u>776,304</u>	3.670% to 7.3%	1/1/14 to 8/1/49	BAA1 to AAA
Asset-backed securities	<u>154,668</u>	1.110% to 1.55%	4/8/15 to 9/15/16	AAA
Mortgage backed securities, Federal National Mortgage Association	<u>4,368,084</u>	4.0% to 6.5%	12/1/21 to 6/1/42	A1 to AAA
Total investments	<u>\$ 42,692,737</u>			

* Investments in one issuer greater than 5% of all investments

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. Cash and investments (continued):

Investments (continued):

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market value interest rates.

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The majority of the Authority's investments have interest rates that are fixed for long periods and are subject to more variability in their fair value as a result of future changes in interest rates.

Concentration of credit risk:

The Authority does not have an investment policy for concentration of credit risk.

Custodial credit risk:

Custodial credit risk is the risk that in the event of financial institution failure, the Authority's deposits and/or investments may not be returned. The Authority does not have a deposit or investment policy for custodial credit risk. At June 30, 2012 and for the year then ended, all of the Authority's investments were direct investments not subject to custodial credit risk.

3. Capital assets:

	Balance, June 30, 2011	Additions	Retirements and disposals	Balance, June 30, 2012
Capital assets not being depreciated:				
Construction in progress	\$ 779,645	\$ 16,204,394	\$(12,771,090)	\$ 4,212,949
Licensing fees	250,000			250,000
Total capital assets not being depreciated	1,029,645	16,204,394	(12,771,090)	4,462,949
Capital assets being depreciated:				
Bridges	134,094,368	31,770,742		165,865,110
Buildings	2,643,267		(335,000)	2,308,267
Land improvements	653,082	2,714,904		3,367,986
Equipment	5,585,071	4,564,610		10,149,681
Total capital assets being depreciated	142,975,788	39,050,256	(335,000)	181,691,044

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. Capital assets (continued):

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Balance, June 30, 2012</u>
Capital assets being depreciated (continued):				
Less accumulated depreciation:				
Bridges	\$ 39,348,865	\$ 5,186,044		\$ 44,534,909
Buildings	2,643,266		\$ (335,000)	2,308,266
Land improvements	308,168	113,789		421,957
Equipment	<u>2,350,652</u>	<u>560,930</u>		<u>2,911,582</u>
Total accumulated depreciation	<u>44,650,951</u>	<u>5,860,763</u>	<u>(335,000)</u>	<u>50,176,714</u>
Capital assets being depreciated, net	<u>98,324,837</u>	<u>33,189,493</u>	<u>- 0 -</u>	<u>131,514,330</u>
Capital assets, net	<u>\$ 99,354,482</u>	<u>\$ 49,393,887</u>	<u>\$(12,771,090)</u>	<u>\$135,977,279</u>

At June 30, 2012, capitalized interest included in capital assets totaled approximately \$3,542,000.

4. Bonds payable:

On July 31, 2003, the Authority issued \$35,765,000 of Series 2003A Taxable Refunding Revenue Bonds as an advance refunding of the Series 1997 Revenue Bonds. The final principal payment of the Series 1997 Bonds was made on December 1, 2003 in the amount of \$1,680,000; accordingly, as of June 30, 2012, the Authority had no obligations related to the defeased Series 1997 Bonds.

The Series 2003A Bonds are fixed-rate bonds bearing interest at rates ranging from 1.15% to 5.23%, payable semi-annually on December 1 and June 1. Principal repayments of the bond are due annually with a final payment due on December 1, 2017. The Series 2003A Bonds will not be subject to optional redemption prior to maturity but are subject to special mandatory redemption as provided in the Series 2003A bond agreement. At June 30, 2012, the Authority has in-substance defeased debt of approximately \$32,300,000, representing outstanding bonds related to the 1965, 1965A, 1965B and 1967 bond issues. The proceeds from the Series 1997 Bonds were placed into an irrevocable trust to provide for all future debt service payments on the refunded revenue bonds. The assets of the trust account and the liability for the defeased bonds have not been included in the financial statements of the Authority.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

4. Bonds payable (continued):

On April 8, 2010, the Authority issued \$50,000,000 of Series 2010A Revenue Bonds. The proceeds of the Series 2010A Bonds will be used to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and such other activities as are authorized under the Authority Act authorizing the issuance of the Bonds. The Series 2010A Bonds are fixed-rate bonds bearing interest at rates ranging from 3.5% to 5%, payable semi-annually on December 1 and June 1. Principal repayments of the bonds are due annually commencing on December 1, 2018 with a final payment due on December 1, 2039. The Series 2010A Bonds maturing on or after December 1, 2021 are subject to redemption prior to maturity at the option of the Authority.

During the year ended June 30, 2012, changes in bonds payable consisted of the following:

	Balance, June 30, 2011	Additions	Retirements/ amortization	Balance, June 30, 2012
Revenue bonds payable	\$ 69,175,000	\$ - 0 -	\$ 2,370,000	\$ 66,805,000
Deferred amounts, net:				
Gain on refunding	158,209		24,032	134,177
Bond discounts	(874,109)		(43,954)	(830,155)
Total bonds payable	\$ 68,459,100	\$ - 0 -	\$ 2,350,078	\$ 66,109,022

The following represents debt service and sinking fund requirements to maturity as of June 30, 2012:

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 2,475,000	\$ 3,171,862	\$ 5,646,862
2014	2,595,000	3,049,898	5,644,898
2015	2,720,000	2,919,384	5,639,384
2016	2,855,000	2,779,696	5,634,696
2017	3,005,000	2,629,936	5,634,936
2018-2022	8,925,000	11,537,591	20,462,591
2023-2027	8,755,000	9,790,441	18,545,441
2028-2032	11,005,000	7,549,247	18,554,247
2033-2037	14,125,000	4,440,844	18,565,844
2038-2040	10,345,000	792,873	11,137,873
	\$ 66,805,000	\$ 48,661,772	\$ 115,466,772

The State has authorized the Authority to issue approximately \$68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Commitments:

Toll Lane Implementation and Maintenance Contract:

Effective June 17, 2008, the Authority entered into a contract with Telvent Caseta Technologies for implementation of the electronic toll system E-ZPass. The initial contract included ongoing maintenance service through May 1, 2012; the contract was extended through May 2014 with an approximate annual cost of \$210,700.

E-ZPass Customer Service Contract:

Effective September 23, 2008, the Authority entered into a three-year contract (Service Contract) with Affiliated Computer Services of Newark, New Jersey (known as Xerox) to process E-ZPass transactions. The Service Contract, based on traffic flow, includes options to extend and a tiered fee schedule for services. Services include:

- Maintaining the account information database
- Resolving disputes
- Debiting accounts based upon toll revenue charged to account holders
- Processing toll lane violations, including administrative violations
- Marketing

The initial contract expired in September 2011; the Authority exercised its option to extend the Service Contract for one year, after which it will continue on a month-to-month basis.

Early in fiscal year 2012, the Authority entered into a new service contract with CS IT America. The transition plan for the change in services has been designed and is currently in the implementation phase; it is expected to be completed in the third quarter of fiscal year 2013.

Construction in progress:

In connection with the Series 2010A Bond Issuance, the Authority entered into a contract for improvements to the bridges and property. As of June 30, 2012, remaining commitments on this contract approximated \$7,500,000.

Additionally, the Authority has entered into contracts to provide for the maintenance of the bridges. As of June 30, 2012, remaining commitments on these contracts approximate \$1,400,000.

In May 2012, the Authority entered into a \$7.1 million contract for the painting of and steel repairs to the Mount Hope Bridge.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Commitments (continued):

Construction in progress (continued):

In April 2012, the Authority, by way of a change order to the renovation of the administration building, committed to perform additional renovation to the maintenance building totaling \$204,000.

Collective bargaining agreement:

Approximately 28 employees of the Authority are under the terms of a contract with the United Service and Allied Workers of Rhode Island, a collective bargaining unit. The contract will expire on June 30, 2014.

6. Tax deferred savings incentive plan:

The Authority sponsors an employee tax-deferred savings incentive 401(k) plan (the Rhode Island Turnpike & Bridge Authority Retirement Plan established in 1985; the Plan), which is available to employees who meet the Plan's eligibility requirements. The investments held by the Plan, a defined contribution plan, are managed by third-party service providers and the Plan is administered by Meridien. Under the Plan, employees may contribute up to 5% of compensation and the Authority provides a matching contribution. The Authority may also make a supplemental contribution such that its total annual contribution does not exceed 10% of employee adjusted net compensation. The 10% limit includes the aggregate of the life insurance costs as well as the 401(k) contribution. The employees' contribution to the Plan for fiscal year 2012 was approximately \$128,000, while the total cost of the matching and supplemental employer contribution for fiscal year 2012 was approximately \$123,000. The Authority contributes 3.4% of the employee's salary to the Plan and also provides an additional match of up to 5% of the employee's salary. The payroll for employees covered by the Plan for fiscal year 2012 was approximately \$1,508,000 and the Authority's total payroll was approximately \$2,920,000. The trustees of the Plan are currently comprised of two members of the Authority's Board of Directors and one employee. The trustees are responsible for establishing or amending the Plan's provisions and contributions. The Board of Directors of the Authority must approve all amendments to the Plan.

7. Risk management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has not recorded a reserve for such claims at June 30, 2012.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Contingencies:

Construction project:

Upon completion of a construction project, a contractor hired by the Authority submitted a claim for approximately \$2,980,000 for amounts alleged to be owed by the Authority in excess of the original contract amount due to limitations imposed by the Authority and for work required to be performed outside the scope of the original contract. The Authority and its external consulting engineer have disputed the claim in writing, and have not received any additional information from the contractor as a result of submitting a written response to the claim. The Authority is unable to determine the final outcome of this claim. The accompanying financial statements do not include any liability related to this uncertainty.

Class action lawsuit:

The Authority was subject to a class action lawsuit challenging the toll rate structure for certain drivers using E-ZPass. During 2011, an opinion and order was issued by the court, granting the Authority's request for summary judgment. The parties have negotiated a final settlement which is pending final approval. In 2011, the Authority recorded a liability for \$1,200,000 as its best estimate of amounts due to certain customers under the terms of the settlement agreement. During the year ended June 30, 2012, further work on the settlement continued, resulting in a reduction of the Authority's liability to \$906,151.

9. Accrued expenses and subsequent event:

During the year ended June 30, 2012, the Authority entered into a partnership with VION Municipal Capital LLC (VION) to design and build open road tolling lanes at the Claiborne Pell Bridge toll plaza. Under the terms of the agreement, the Authority was required to repay VION its original \$4,500,000 investment in the equipment; this amount is included in accrued expenses in the accompanying statement of net assets. In August 2012, the agreement was terminated and the Authority paid VION \$5,200,000, consisting of VION's original investment plus interest and expenses.

10. Subsequent event:

In June 2012, the Rhode Island General Assembly passed the State of Rhode Island budget for the year ending June 30, 2013, which includes an article that will allow for the transfer of the Sakonnet River and Jamestown Verrazano bridges to the Authority from the Rhode Island Department of Transportation. The process to effect that transfer will begin during the year ending June 30, 2013.



Independent Auditors' Report on Accompanying Information

Board of Directors
Rhode Island Turnpike and Bridge Authority
Jamestown, Rhode Island

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Rhode Island Turnpike and Bridge Authority, a component unit of the State of Rhode Island, taken as a whole. The accompanying schedule of expenditures of federal awards and the other accompanying supplementary information on pages 30 to 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, except for the portion marked "unaudited" on page 32, upon which we express no opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 26, 2012

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Nonmajor program:		
U.S. Department of Transportation Federal-Aid Highway Program Federal Lands Highway Program	20.205	<u>\$ 490,000</u>
Total U.S. Department of Transportation		<u>490,000</u>
Total expenditures of federal awards		<u><u>\$ 490,000</u></u>

See notes to schedule of expenditures of federal awards.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

1. Basis of presentation:

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Authority and is presented on the accrual basis of accounting. The information included in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Rhode Island Turnpike and Bridge Authority's basic financial statements.

2. Determination of Type A and major programs:

The Authority's Type A programs were determined based on the total expenditures for all federal programs of the State of Rhode Island (State). For the year ended June 30, 2012, the State determined that all federal programs for which federal expenditures were greater than or equal to \$17,000,000 constituted Type A programs. For the year ended June 30, 2012, the Authority had no Type A programs.

When determining those programs to be audited as major programs, the State did not require a risk assessment of the Authority's federal programs whose federal expenditures were less than \$17,000,000 (Type B programs) since the State will perform a risk assessment of Type B programs at the State level. Also, the State did not require that the Percentage of Coverage Rule, as defined by OMB Circular A-133, be complied with since compliance with the Percentage of Coverage Rule will be applied at the State level.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAFFIC COUNT AND REVENUES

YEAR ENDED JUNE 30, 2012

	<u>Claiborne Pell Bridge</u>
Traffic count (unaudited):	
Vehicle fares paid with ETC	8,475,863
Vehicle fares paid with cash	<u>1,656,460</u>
	<u>10,132,323</u>
Toll revenues (audited):	
Vehicle fares paid with ETC	\$ 11,548,624
Vehicle fares paid with cash	<u>6,754,491</u>
	<u>\$ 18,303,115</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

YEAR ENDED JUNE 30, 2012

Check Number	Date Paid	Payee	Purpose	Amount
11911	7/13/2011	Int'l. Bridge, Tunnel & Turnpike	IBTTA 7/17-7/19 Meeting, 3 @ \$575 (Croft, Fletcher, & Waluk)	\$ 1,725
11923	7/14/2011	East Ferry Deli	Board Meeting - 7/13	42
11953	7/16/2011	American Express	Arcade Garage (Parking)	11
11963	7/22/2011	Mr. Arthur H. Fletcher	Travel Expenses RE: IBTTA July Meeting	205
Payroll	7/26/2011	Nancy Parrillo	Mileage	62
11989	7/28/2011	Stephen C. Waluk	IBTTA July Meeting	197
11948	8/2/2011	RITBA	Luncheon RE: Negotiation Meeting	54
12006	8/4/2011	East Ferry Deli	Board Meeting - 8/3	42
12027	8/9/2011	American Express	IBTTA July Meeting Expenses	950
11993	8/12/2011	David Darlington	Meeting Expense	188
11997	8/18/2011	Newport County Chamber of Com.	9/28 Luncheon, B. Croft	25
12050	8/22/2011	Stephen C. Waluk	IBTTA July Meeting Reimbursement	615
Payroll	8/23/2011	J. Reilly	Mileage	6
12157	9/14/2011	East Ferry Deli	Board Meeting - 9/14	42
12119	9/26/2011	R.I. Turnpike & Bridge Authority	Tolls and Parking Expense	23
Payroll	10/4/2011	James Reilly	Mileage	42
Payroll	10/18/2011	E. Hernandez	Mileage	55
12198	10/31/2011	James E. Swanberg	Luncheon RE: EZ-Pass Back Office, RFP Group	82
Payroll	11/1/2011	J. Reilly	Mileage	20
12251	11/2/2011	East Ferry Deli	Board Meeting - 11/2	41
12251	11/8/2011	East Ferry Deli	Meeting @ Jamestown Town Hall 11/4	113
12235	11/17/2011	R.I. Government Finance Office	Luncheon 12/8 N. Parillo	30
Payroll	11/29/2011	A. DellaPosta & K. O'Connor	Mileage	166
12243	12/5/2011	Greater Prov. Chamber of Commerce	Luncheon 1/26, D. Darlington and B. Croft	120
12279	12/13/2011	R.I. Turnpike & Bridge Authority	Parking and Luncheon RE: Interview Panel	64
12281	12/13/2011	Mr. Arthur H. Fletcher	Mileage	267
Payroll	12/13/2011	E. Hernandez/J. Reilly	Mileage	140
12326	12/16/2011	American Express	Travel Expenses, B. Croft	179
12335	12/22/2011	East Ferry Deli	Board Meeting 12/22	42
Payroll	12/27/2011	J. Reilly	Mileage	16
Payroll	1/11/2012	A. DellaPosta	Mileage	16
12373	1/16/2012	American Express	Travel Expenses, B. Croft	326
12386	1/18/2012	East Ferry Deli	Board Meeting - 1/18	42
12418	2/7/2012	Newport County Chamber of Com.	Luncheon 2/29, B. Croft	25
Payroll	2/7/2012	N. Parrillo \$834.11; E. Hernandez \$12.33	Mileage	846
12428	2/8/2012	East Ferry Deli	Board Meeting - 2/8	42
12464	2/14/2012	Greater Prov. Chamber of Commerce	Breakfast 4/9, B. Croft	40

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2012

Check Number	Date Paid	Payee	Purpose	Amount
12443	2/27/2012	American Express	IBTTA Meeting 1/18-1/21 (B. Croft)	\$ 708
12482	3/14/2012	East Ferry Deli	Board Meeting - 3/14	42
12502	3/17/2012	American Express	Parking Expense	9
12524	3/22/2012	R.I. Economic Development Corp.	Luncheon 5/8, B. Croft	45
12512	3/28/2012	East Ferry Deli	Investment Advisor Interviews	42
Payroll	4/3/2012	N. Parrillo	Train to New Jersey, Parking, Mileage	382
12534	4/5/2012	R.I. Turnpike & Bridge Authority	Postage and ORT Meeting	167
12542	4/5/2012	McQuade's Marketplace	ORT Meeting 4/5	15
Payroll	4/17/2012	N. Parrillo	Trip to New Jersey - ACS	337
12560	4/23/2012	American Express	Travel Expense, B. Croft	217
12575	4/25/2012	Newport County Chamber of Com.	Breakfast Meeting 5/7, B. Croft	25
12587	4/30/2012	East Ferry Deli	Board Meeting - 4/11	41
12587	5/2/2012	East Ferry Deli	Board Meeting - 5/2	41
12614	5/15/2012	Newport County Chamber of Com.	Economics Meeting 5/30, B. Croft and D. Darlington	50
12647	5/21/2012	American Express	IBTTA Meeting 4/24-4/29	458
12670	5/24/2012	McQuade's Marketplace	Drinks for Meeting - 5/24	35
12634	5/31/2012	Petty Cash	R.I. Turnpike & Bridge Authority	230
Payroll	6/12/2012	E. Hernandez \$26.53; J. Reilly \$78.04	Mileage	105
12710	6/15/2012	McQuade's Marketplace	Drinks for meeting w/ CS IT America - 6/15	12
12700	6/20/2012	Mr. Arthur and H. Fletcher	Mileage	250
12699	6/21/2012	East Ferry Deli	Coffee/pastry - Board meeting - 6/20	41
Payroll	6/26/2012	N Parrillo \$280.33; A DellaPosta \$28.86	Mileage	309
				<u>\$ 10,462</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2012

<u>Statement of Net Assets</u>	<u>Attachment B</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,997,093
Investments	2,686,441
Receivables	135,448
(Receivables allowance)	
Restricted assets:	
Cash and cash equivalents	4,277,219
Investments	10,824,729
Other assets	524,739
Due from primary government	
Due from other governments	
Inventories	79,043
Other assets	78,868
Total current assets	<u>20,603,580</u>
Noncurrent assets:	
Investments	16,168,427
Receivables	
(Receivables allowance)	
Restricted assets:	
Cash and cash equivalents	
Investments	13,013,140
Other assets	
Capital assets - nondepreciable	4,462,949
Capital assets - depreciable (net)	131,514,330
Other assets, net of amortization	977,445
Total noncurrent assets	<u>166,136,291</u>
Total assets	<u>186,739,871</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2012

<u>Statement of Net Assets (continued)</u>	<u>Attachment B</u>
Liabilities	
Current liabilities:	
Cash overdraft	
Accounts payable	\$ 12,659,146
Due to primary government	
Due to (from) other component units	
Due to other governments	
Deferred revenue	
Other liabilities	2,799,485
Current portion of long-term debt	2,475,000
Total current liabilities	<u>17,933,631</u>
Noncurrent liabilities:	
Due to primary government	
Due to other governments	
Deferred revenue	
Notes payable	
Loans payable	
Obligations under capital leases	
Other liabilities	
Compensated absences	
Bonds payable	63,634,022
Total noncurrent liabilities	<u>63,634,022</u>
Total liabilities	<u>81,567,653</u>
Net assets	
Invested in capital assets, net of related debt	58,838,181
Restricted for:	
Debt	14,248,472
Other	
Other nonexpendable	
Unrestricted	32,085,565
Total net assets	<u>\$ 105,172,218</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2012

<u>Statement of Changes in Net Assets</u>	<u>Attachment C</u>
Operating revenues:	
Charges for services	\$ 18,303,115
Interest income on loans	
Interest on investments	
Net increase (decrease) in fair value of investments	
Other operating income	521,378
Total operating revenues	18,824,493
Operating expenses:	
Personnel services	2,920,029
Supplies, materials, and services	4,915,812
Interest expense	
Grants, scholarships and contract programs	
Depreciation, depletion and amortization	5,860,763
Other operating expenses	
Total operating expenses	13,696,604
Operating income	5,127,889
Nonoperating revenues (expenses):	
Interest revenue	1,004,653
Grants	490,000
Payments from primary government	
Gain (loss) on sale of property	
Interest expense	(2,206,927)
Payments (to) from other component units	
Net increase (decrease) in fair value of investments	
Other nonoperating revenue (expenses)	6,561
Total nonoperating revenue (expenses)	(705,713)
Income (loss) before contributions	4,422,176
Capital contributions	
Special items	
Extraordinary items	
Change in net assets	4,422,176
Total net assets - beginning	100,750,042
Total net assets - ending	\$ 105,172,218

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2012

	<u>Long-Term Debt</u>	<u>Attachment D</u>	
Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 2,475,000	\$ 3,171,862	\$ 5,646,862
2014	2,595,000	3,049,898	5,644,898
2015	2,720,000	2,919,384	5,639,384
2016	2,855,000	2,779,696	5,634,696
2017	3,005,000	2,629,936	5,634,936
2018-2022	8,925,000	11,537,591	20,462,591
2023-2027	8,755,000	9,790,441	18,545,441
2028-2032	11,005,000	7,549,247	18,554,247
2033-2037	14,125,000	4,440,844	18,565,844
2038-2040	10,345,000	792,873	11,137,873
	\$ 66,805,000	\$ 48,661,772	\$ 115,466,772

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2012

Schedule of Changes in Long-Term Debt

Attachment E

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$ 69,175,000	\$ -	\$ 2,370,000	\$ 66,805,000	\$ 2,475,000	\$ 64,330,000
Net unamortized premium/discount	(874,109)	43,954		(830,155)		(830,155)
Deferred amount on refunding	158,209		24,032	134,177		134,177
Bonds payable	68,459,100	43,954	2,394,032	66,109,022	2,475,000	63,634,022
Due to primary government				-		-
Notes payable				-		-
Obligations under capital leases				-		-
Net OPEB obligation				-		-
Compensated absences				-		-
Included in other liabilities:						
Arbitrage rebate				-		-
Pollution remediation				-		-
Items not listed above				-		-
Other liabilities	-	-	-	-	-	-
	<u>\$ 68,459,100</u>	<u>\$ 43,954</u>	<u>\$ 2,394,032</u>	<u>\$ 66,109,022</u>	<u>\$ 2,475,000</u>	<u>\$ 63,634,022</u>



**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Directors
Rhode Island Turnpike and Bridge Authority
Jamestown, Rhode Island

We have audited the financial statements of the Rhode Island Turnpike and Bridge Authority (the Authority), a Component Unit of the State of Rhode Island, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards (Continued)**

Board of Directors
Rhode Island Turnpike and Bridge Authority

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as Items 2012-1 through 2012-4, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management and others within the entity, and the State of Rhode Island Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

LJC & D LLP

September 26, 2012

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2012

Item 2012-1 Wire Transfer Authorization and Bank Reconciliations

Observation:

As noted during the prior year audit, the Chief Financial Officer (CFO) has the authority to initiate, process, and record in the general ledger a wire transfer from the Authority's operating cash accounts. A person independent of the CFO does not review and authorize the wire transfer transaction before it is executed by the bank. Also, the CFO prepares the Authority's bank reconciliations; however, a person independent of the CFO does not review and approve the bank reconciliations.

Recommendation:

We understand that the Authority's Board of Directors and Executive Director review monthly financial reports prepared by the CFO. However, to strengthen the existing internal control over financial reporting, we recommend that the Authority:

- Assign wire authorization to the Executive Director and the Chairman of the Board of Directors only.
- Assign to the Executive Director the function of reviewing the month-end reconciliation of each bank and investment account, and comparing the reconciled bank and investment account balances to the respective balances reported in the general ledger.

Management's Response:

The Authority has set up a fax notification process from the bank directly to the Executive Director for all wires affecting Authority accounts.

The Authority implemented a system of reporting bank and general ledger balances to the Executive Director and the Board on a monthly basis.

Item 2012-2 Reconciliation of Investments

Observation:

During our audit, we noted a significant increase in the recorded amount of investment fees and investment income when compared to amounts recorded in the prior year. The differences resulted principally from the misclassification of recording investment income and expenses. Although correcting entries were required to be recorded, the entries did not have an effect on total net assets.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2012

Item 2012-2 Reconciliation of Investments (Continued)

Recommendation:

We recommend that the Authority's management prepare a monthly detailed investment reconciliation for each investment account summarizing sales, purchases, investment income, and investment fees. Also, as part of each month-end closing, the CFO should reconcile the amounts recorded in each general ledger account to the respective activity within the reconciliation to determine whether all transactions occurring within all investment accounts have been completely and accurately recorded.

Management's Response:

The Authority agrees with this recommendation. New procedures for the reconciliation process have been implemented.

Item 2012-3 Accounts Payable and Year-End Cutoff Procedures

Observation:

During our procedures to reconcile net assets reported at the beginning of the year under audit to the total of net assets reported in the prior year's audited financial statements, we noted that certain expense and accounts payable transactions occurring during the year ended June 30, 2012 were incorrectly recorded as 2011 transactions.

Recommendation:

We recommend that a person independent of the person recording accounts payable activity in the Authority's general ledger reconcile the recorded amounts and determine whether such amounts have been reported in the period to which they relate. We also recommend that controls be implemented to mitigate the potential for recording activity in a period other than the period to which the transactions relate.

Management's Response:

The Authority agrees with the recommendation. We are currently researching financial systems to replace our current accounting package that will ensure that this issue is rectified.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2012

Item 2012-4 Recording of Nonrecurring Transactions

Observation:

During our audit, we noted that the Authority recorded as revenue amounts received from a vendor in settlement of disputed costs that were previously capitalized by the Authority, rather than as a reduction of previously capitalized costs.

Recommendation:

We recommend that the Authority review the nature of nonrecurring transactions and the applicable accounting guidance to determine whether amounts for nonrecurring transactions are recorded in the general ledger in accordance with accounting principles generally accepted in the United States.

Management's Response:

The Authority agrees with the recommendation.