

**Rhode Island  
Infrastructure Bank**  
**(A Component Unit of the State of Rhode Island  
and Providence Plantations)**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

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# **RHODE ISLAND INFRASTRUCTURE BANK**

## **INTRODUCTORY SECTION**

**This section contains the following:**

*Letter of Transmittal*

*List of Principal Officers, Bank Staff and Technical Advisors*

*Organizational Chart*

*Certificate of Achievement for Excellence in Financial Reporting*

September 30, 2016

We are pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Rhode Island Infrastructure Bank (the "Bank") formerly the Rhode Island Clean Water Finance Agency ("RICWFA"), for the fiscal year ended June 30, 2016. This report has been prepared in conformity with generally accepted accounting principles ("GAAP") for state and local governments as promulgated by the Governmental Accounting Standards Board ("GASB").

The data presented is accurate in all material aspects and is reported in a manner that presents fairly the Bank's financial position and results of operations. We have included all disclosures necessary to enable the reader to gain an understanding of the Bank's activities. Management is responsible for the information contained within this report.

The CAFR is presented in three sections: introductory, financial and statistical. The introductory section contains an overview of current initiatives and summary financial data. The financial section contains a Management's Discussion and Analysis ("MD&A") section and the basic financial statements. GAAP requires that management provide a narrative overview and analysis, in the form of a MD&A, to accompany the basic financial statements. The Bank's MD&A can be found immediately following the independent auditor's report. The statistical section, which is unaudited, contains selected financial and demographic information.

#### *Reporting Entity*

The Bank is reported as a component unit of the State of Rhode Island and Providence Plantations. Pursuant to its enabling statute, the Bank submits its independently audited financial statements to the State's Senate Fiscal Office, House Fiscal Office, Office of the Auditor General, Department of Administration, and other required parties. The Bank's Board of Directors requires the Bank to undergo quarterly agreed-upon procedures that review bank reconciliations, investments, loan receivables, bonds payable, accrued interest payable, and payroll taxes. The Bank's independent auditors perform these procedures. Also, as an entity receiving federal funding, the Bank is required to undergo an annual single audit to conform with the requirements of the Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget's Uniform Grant Guidance.

The Bank is governed by a Board of Directors consisting of five members, four of whom are members of the public appointed by the Governor, with the advice and consent of the State Senate. The General Treasurer or such officer's designee, who shall be a subordinate within the General Treasurer's department, serves on the Board of Directors as an ex-officio member. The Bank operates under the direction of the Executive Director and Chief Executive Officer (CEO), Jeffrey R. Diehl. Following this transmittal letter is a list of the Bank's management and organizational chart.

## *Profile of Rhode Island Infrastructure Bank*

The RICWFA was created in 1989 as a body politic and corporate, and a public instrumentality of the State to administer certain Federal and State programs relating to municipal or community wastewater and drinking water financial assistance. The RICWFA became the Bank on September 1, 2015. The Bank administers the revolving loan funds ("SRF") created under Title VI of the Federal Clean Water Act and its State counterpart, and the Federal Safe Drinking Water Act, as amended. The Bank also administers the Municipal Road and Bridge Revolving Fund established during 2014 by the General Assembly. The Bank also administers the Water Quality Protection Charge Program (the "WQPCP") in accordance with Rhode Island Public Laws Chapters 46-12.2, 46-15.1, and 46-15.3. During fiscal year 2015, the General Assembly created four new programs for the Bank to establish and operate: The Efficient Building Fund (the "EBF"), The Rhode Island (RI) Commercial Property Assessed Clean Energy Fund (the "C-PACE"), The RI Residential Property Assessed Clean Energy Fund (the "R-PACE") and The RI Brownfields Fund (the "BF"). The inaugural EBF transaction was approved by the Bank's Board of Directors late in fiscal year 2016 and the C-PACE program also became operational during fiscal year 2016. The other programs will become operational in fiscal 2017.

The Bank administers loan programs that provide funding to cities, towns, other governmental units and certain eligible private entities to finance improvements to drinking water, wastewater infrastructure, and road and bridge infrastructure. To qualify for a loan with the Bank, the project requires approval by the Rhode Island Department of Environmental Management ("DEM") for wastewater projects, the Department of Health ("DOH") for drinking water projects, the Department of Transportation (the "DOT") for road and bridge projects, and the Office of Energy Resources (the "OER") for energy projects.

## *Information Useful in Assessing the Economic Condition of the Rhode Island Infrastructure Bank*

The financial section of this report provides information regarding the economic condition of the Bank. Please see MD&A in the financial section for a presentation of the Bank's financial condition. To assess the Bank's financial condition, it is essential to understand the Bank's loan programs.

## *Loan Programs of the Bank*

The Bank currently administers five major loan programs. The Clean Water State Revolving Fund (the "CWSRF") primarily finances wastewater infrastructure and improvements to private homeowner septic systems. The Rhode Island Water Pollution Control Revolving Fund (the "RIWPCRF") primarily finances complementary projects that do not meet federal program requirements. The Drinking Water State Revolving Fund (the "DWSRF") primarily finances drinking water infrastructure projects. The Municipal Road and Bridge Revolving Fund (the "MRBRF") finances municipality owned road and bridge infrastructure projects. The EBF finances energy efficiency and renewable energy projects in buildings owned by municipalities and quasi-state agencies. To fund its operations, the Bank charges an administrative fee of 0.5% of the principal outstanding per year on CWSRF, DWSRF, RIWPCRF, MRBRF and EBF loans.

## *Current Major Programs*

### *Clean Water Program*

The CWSRF is a loan program utilized by local governmental units to finance wastewater infrastructure projects. To be eligible for funding, the project must be on the DEM's Project Priority List (the "PPL") and have a Certificate of Approval from DEM. The PPL is updated annually. Since the inception of the CWSRF, the Bank has closed over \$1.245 billion in loans to municipalities, the Narragansett Bay Commission, the Providence Water Supply Board and the RI Airport Corporation. The CWSRF program provides an interest rate reduction to its borrowers. Currently, the standard loan offer is for a term up to 20 years at a subsidized loan rate of 67% of the borrower's market rate.

The Clean Water Program also supports the Community Septic System Loan Program (the "CSSLP"), which provides no interest loans to RI communities to assist homeowners in repairing or replacing a failing or failed septic system at a reduced interest rate. Loans made by the communities to homeowners are secured by a lien on the property. Currently, the standard loan offer to homeowners is a term of ten years at a subsidized loan rate of 1% and a \$300 application fee. The Bank has closed 46 CSSLP loans totaling \$13.0 million since program inception.

### *Rhode Island Water Pollution Control Revolving Fund*

The RIWPCRF receives state capital contributions before the funds are transferred to the CWSRF or DWSRF programs. The Bank has the authority to use these funds to make loans, issue bonds, and receive interest earnings or other capital from public or private sources complementing the federally supported activity described above. The Bank has used the Fund to finance projects not meeting the requirements of the SRF programs. To date, the Bank has closed nine loans totaling over \$58 million from this fund.

### *Drinking Water Program*

The DWSRF program promotes the completion of cost-effective projects that maximize public health protection. It supports public health protection by ensuring that all RI Public Water Suppliers have the necessary technical, financing, and managerial capacity to maintain compliance with the current and future requirements of the Safe Drinking Water Act. To be eligible for funding, the DWSRF projects typically involve construction and/or rehabilitation of drinking water treatment plants, replacement of aging water mains and construction of drinking water storage facilities. Since the inception of the DWSRF, the Bank has closed over \$428 million in loans to municipalities, and publicly and privately organized water suppliers. The program promotes the completion of cost-effective projects that maximize public health protection. Currently, the standard loan offer is for a term up to 20 years at a subsidized loan rate of 75% of the borrower's market rate.

### *Municipal Road and Bridge Revolving Fund*

The MRBRF is a loan program that provides municipalities with low-cost financing for road and bridge infrastructure projects. To be eligible for financing, projects must be on the DOT's PPL. The PPL is updated annually. To date, the Bank has made 19 loans to 14 communities totaling \$25.2 million through the MRBRF, including four loans totaling over \$6.2 million during fiscal year 2016. Currently, the standard loan offer is for a term up to 20 years at a reduced loan rate of 67% of the borrower's market rate.

### *Efficient Buildings Fund*

The EBF is a loan program that provides municipalities, school districts, and quasi-state entities with access to attractive financing for renewable energy and energy efficiency improvements to their facilities. To be eligible for financing through the program, projects must be listed on a PPL developed annually by OER. During fiscal year 2016, the Bank adopted rules and regulations for the program and the Board of Directors approved nine loans totaling \$25.1 million – six of these loans were closed in early 2017.

### *Commercial Property Assessed Clean Energy Program*

C-PACE is a financing program designed to enable qualifying commercial and industrial property owners to invest in specified energy efficiency, renewable energy, and/or environmental health and safety improvements. Commercial property owners participating in the program repay the cost of their improvement over a set time period, usually 10 to 20 years, through a private loan secured by a lien placed on the property. In fiscal year 2016, the Bank adopted rules and regulations governing the program and contracted with a third-party private entity to administer the program on a day-to-day basis. Projects will be financed by private capital providers and do not rely upon Bank or taxpayer funds.

### *Interim Loans*

Interim Bank financing is available for eligible projects in both the CWSRF and DWSRF programs. Borrowers may access a short term loan to enable projects to proceed prior to the Bank's bond sale. The Bank is capable of funding a project from 30 days to 1 year prior to a bond sale by extending the use of program equity funds as a source of capital. Interest is accrued monthly on the balance drawn on the construction account.

## *Programs Under Development*

### *Water Quality Protection Charge Program*

The WQPCP provides low cost funding for land acquisition for water shed protection and other projects as requested by water suppliers. The Bank is currently developing the program's policies and procedures and should begin funding projects during fiscal 2017.

### *Residential Property Assessed Clean Energy Program*

R-PACE is a financing program designed to enable qualifying residential property owners to invest in specified energy efficiency, renewable energy, and/or environmental health and safety improvements. Residential property owners participating in the program repay the cost of their improvement over a set time period, usually 10 to 20 years, through an assessment on their property tax bill. The Bank is currently developing the program's policies and procedures and anticipates launching the program during fiscal 2017.

### *Brownfields Revolving Loan Fund*

The BF will finance brownfield remediation projects for municipal and private entities. The program is being developed in partnership with the RI DEM and the RI Commerce Corporation. During fiscal 2016 the Bank applied for an Environmental Protection Agency ("EPA") Capitalization Grant and was awarded \$820,000 in June 2016. The Bank is currently developing the program's policies and procedures and anticipates launching the program during fiscal 2017.

## *Financing*

### *Leveraged Financing Model*

The Bank's SRF Programs utilize a "leveraged" financing model. The Bank's SRF loan programs receive annual capitalization grants from the EPA. These funds are supplemented by state matching funds and by the repayment of loans from borrowers ("SRF Program Funds"). These federal grants and state matching grants are used as a source of security for revenue bonds ("SRF Bonds") issued by the Bank. The combined federal grant, state match, revolved capital and bond proceeds are used to fund loans to eligible borrowers for eligible project costs. The leveraged structure of the Bank's program permits the Bank to substantially increase amounts available to fund eligible project costs. Each federal grant and associated state matching grant dollar contributed to the program results in at least three to four dollars of project cost financing while ensuring the perpetual nature of the revolving fund. The Bank has received total combined federal and state support of over \$547 million to date which has provided funding for nearly \$1.7 billion in clean water and drinking water construction projects.

The Bank's federal capitalization grant awards include requirements to provide defined levels of subsidization (i.e., principal forgiveness). The Bank has issued over \$40 million in loans subject to some principal forgiveness combined in both the CWSRF and the DWSRF. The Bank recognizes principal forgiveness as an expense as the related loans are repaid. To date, the Bank has forgiven over \$5.8 million in loans in both programs. RI chose to apply principal forgiveness funds first to projects designated as "green" by the DEM or the DOH and then pro-rata to the remaining pool of borrowers.

The Bank's lending and bond issuance programs are structured to ensure adequate cash flows to fund its loans and to repay its bonds to maturity. The Bank's bonds are secured by a combination of pledged sources, which include borrower loan repayments and interest earnings on pledged SRF Program Funds.

The credit quality of the loan portfolio is important since loan repayments are the primary source of revenue for the Bank's debt service payments. The Bank loans are secured either by a general obligation pledge of the borrowers, or by a revenue pledge payable from drinking water and wastewater revenues of the related borrowers. The Bank has a large diverse pool of borrowers with sound credit quality. To date, the Bank has not experienced any delinquencies or defaults on its lending portfolio.

The Bank utilizes its SRF Program Funds to fund either state or federal direct loans to eligible borrowers, which are then pledged as a source of payment and security for the SRF Bonds.

Under the pledged direct loan approach, the Bank pledges direct loans that it has issued from its SRF Program Funds to eligible borrowers for water pollution abatement and drinking water projects. The Bank applies the interest payments on these pledged direct loans to pay a portion of the debt service on the related series of SRF Bonds. Principal payments on the pledged direct loans are pledged as security for the related series of SRF Bonds.

In the past, the Bank has applied a portion of its SRF Program Funds to establish reserve funds to secure a series of its SRF Bonds. Those funds are invested and the investment earnings are then applied to pay a portion of the debt service on the related SRF Bonds, thereby supplementing the loan repayment obligations of the borrowers of the leveraged loans funded by such SRF Bonds. As of June 30, 2016, the Bank has \$80.7 million in SRF reserve funds invested in guaranteed investment contracts (GIC's), collateralized repurchase agreements and United States Treasury and Municipal Bonds.

The Bank's SRF bonds are rated AAA by Fitch and Standard and Poor's. The SRF bonds issued through 2009 were rated Aaa by Moody's.

#### *Long Term Financial Planning*

Relative to its long-term financial position, one of the most important issues facing the Bank is the status of future federal support for the CWSRF and DWSRF.

If federal funding declines, without additional state support, the Bank's ability to maintain or increase its lending activities will be limited. While this would not affect the financial health of the Bank, it would affect the CWSRF and DWSRF programs administered by the Bank. The Bank's financial capacity is not adequate to fund all of the projects currently listed on the project priority lists approved by DEM and DOH; future growth of the Bank's capacity is dependent on additional state support and/or federal appropriations to the State Revolving Fund programs, as explained in Note 5 of the Bank's Financial Statements, "Capitalization Grants".

#### *Economic Factors Affecting the Bank*

The finances of the Bank have not been dramatically affected by past national economic stress, due to the Bank's highly-structured approach to lending and bonding. Although there are many current credit pressures affecting our borrowers, primarily municipalities and utilities in RI, the projects financed are oriented to drinking water supply and wastewater treatment and other essential services, which are primarily supported by drinking water and sewer enterprise systems with their own user-fee or rate-based revenue. Accordingly, the projects are somewhat insulated from the general fiscal and expenditure pressures facing municipal governments. Furthermore, the Bank benefits from a diversified pool of borrowers reducing its vulnerability to significant deterioration of any single borrower.

Demand for loans from the Bank were extremely high during fiscal 2016. The Bank closed two pooled issues in the CWSRF; the first closed in July 2015 and funded six loans totaling \$82,428,400. The second issue closed in June, 2016; and funded eight loans totaling \$55,942,000. DEM's PPL included \$1.8 billion in Clean Water projects through June of 2016. DOH's PPL included over \$72 million in Drinking Water projects through June of 2016 and the Bank funded \$42,375,000 million in loans to four borrowers during fiscal 2016. The Municipal Road and Bridge program funded over \$6.2 million in loans to four borrower's during 2016. DOT's PPL included over \$19 million in Municipal Road and Bridge projects through June of 2016. The Bank also closed five CSSLP loans totaling \$1.5 million and two administrative loans for over \$3.3 million. During fiscal 2016 the Bank closed three refunding bond issues, the 2015B and 2015C Water Pollution Control Refunding Bonds for \$47,700,000 which provided over \$6 million in savings, the \$24,265,000 Pawtucket 2015 Refunding Conduit Issue which provided over \$9 million in savings, and the \$49,060,000 2016A Water Pollution Control Refunding Bonds which provided over \$8 million in savings. The Bank expects demand for its lending programs to remain strong as communities work to meet tightening environmental standards and maintain aging infrastructure.

The current record low interest rate environment has greatly reduced the value of the reduced loan rate resulting from the below market rate loans provided to the Bank's borrowers. The Bank expects to continue to award additional subsidization in the form of principal forgiveness to its eligible borrowers to further bring costs down.

While economic factors have not affected the Bank's current financial position, macroeconomic stresses pose risks to the Bank's long-term investment portfolio. Over the past few years, a number of institutions providing GICs to the Bank have experienced credit downgrades by various rating agencies. These actions did not adversely affect the Bank as the Bank has multiple providers reducing concentration risk, as well as contract provisions for collateralization upon credit downgrades. The Bank has been actively managing its GIC portfolio and will continue to take necessary steps to mitigate risks while preserving the overall cash flows of the program. The Bank has employed a number of mitigation strategies during recent fiscal years such as terminating GICs and reinvesting in portfolios comprised of U.S. Agency securities and other highly rated state municipal bonds that replace the original GICs' cash flows. The overall credit quality of the Bank's investment portfolio remains strong.

#### *Independent Audit*

The Bank's independent auditors, RSM US LLP, have performed an independent audit of the Bank for the fiscal year ended June 30, 2016. The independent auditor's report is located at the front of the Financial Section of this report. The Bank prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Bank has established an internal control framework that is designed to protect the Bank's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the Bank's financial statements in conformity with GAAP. The Bank's framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements.

#### *Awards and Acknowledgments*

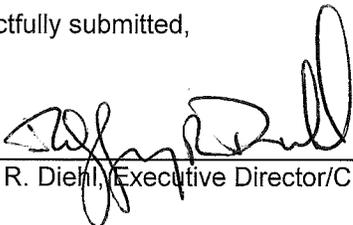
The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the Bank (formerly RICWFA) for its CAFR for the fiscal year ended June 30, 2015. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we will submit it to the GFOA to determine eligibility for another certificate.

The Rhode Island Infrastructure Bank collaborates with DEM, DOH, DOT, the Department of Administration, the OER, the Office of Commerce, the House and Senate Fiscal Offices, and the EPA. The Bank could not accomplish its goals without the hard work and strong support of the people in each of these agencies. To them, we extend our deepest gratitude.

The preparation of this report would not have been possible without the hard work of our entire staff here at the Bank. We also acknowledge the Chair and the Board of Directors for the confidence they have put in us, as well as the Governor, and the Legislature, and the citizens of the State of Rhode Island for their continued support.

Respectfully submitted,

  
\_\_\_\_\_  
Jeffrey R. Diehl, Executive Director/CEO

  
\_\_\_\_\_  
Michael Larocque, Deputy Director/CFO

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**List of Principal Officers, Bank Staff and Technical Advisors**  
**June 30, 2016**

**Board of Directors**

Merrill W. Sherman, Chair  
Scott D. Lajoie, Vice Chair  
Seth Magaziner, Treasurer  
Joshua Celeste, Secretary  
Lisa Ferrara, Assistant Secretary

**Bank Staff**

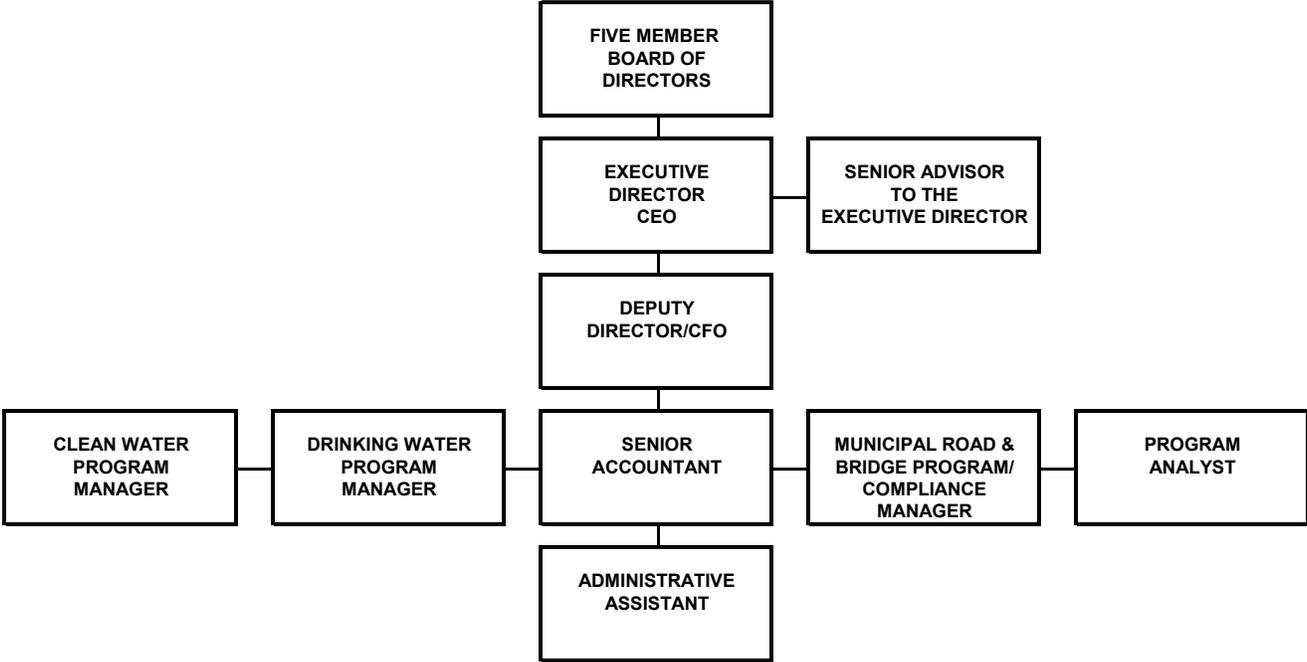
Jeffrey R. Diehl, Executive Director and Chief Executive Officer  
Michael P. Larocque, Deputy Director and Chief Financial Officer  
Michael Baer, Senior Advisor to Executive Director  
Robin Hedges, Clean Water SRF Program Manager  
Anna M. Coelho Cortes, Drinking Water SRF Program Manager  
Michael P. Pagliaro, Senior Accountant  
Helen Terra, Municipal Road and Bridge Program Manager/ Compliance Manager  
Ryan Mulcahey, Program Analyst  
Marcelina Jackson, Administrative Assistant

**Technical Advisors**

R I Department of Environmental Management  
R I Department of Health  
R I Department of Transportation  
R I Office of Energy Resources  
Harrington & Vitale LTD, Legal Counsel  
Nixon Peabody, Bond Counsel  
First Southwest Company, a division of Hilltop Securities Inc., Financial Advisor  
RSM, LLP, Independent Auditors  
U S Bank & Trust, Trustee

**RHODE ISLAND INFRASTRUCTURE BANK**  
(A Component Unit of the State of Rhode Island and Providence Plantations)

**Organizational Chart**





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Rhode Island Clean Water  
Finance Agency**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# RHODE ISLAND INFRASTRUCTURE BANK

## FINANCIAL SECTION

**This section contains the following:**

*Independent Auditor's Report*  
*Management's Discussion and Analysis*  
*Basic Financial Statements*  
*Supplementary Information*

**Independent Auditor's Report**

Board of Directors  
Rhode Island Infrastructure Bank  
Providence, Rhode Island

**Report on the Financial Statements**

We have audited the accompanying financial statements of Rhode Island Infrastructure Bank (the "Bank"), a component unit of the State of Rhode Island and Providence Plantations, which comprise the statement of net position as of June 30, 2016, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Infrastructure Bank as of June 30, 2016, and the changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that 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 of America, 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 audits 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The introductory section, combining financial statements, schedule of Municipal Road and Bridge Revolving Fund – outstanding loan balances by Community, schedule of travel and entertainment expenses, State required supplementary schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements, schedule of Municipal Road and Bridge Revolving Fund – outstanding loan balances by community, schedule of travel and entertainment expenses, and State required supplementary schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements schedule of Municipal Road and Bridge Revolving Fund – outstanding loan balances by community, schedule of travel and entertainment expenses, and State required supplementary schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Rhode Island Infrastructure Bank'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rhode Island Infrastructure Bank's internal control over financial reporting and compliance.

*RSM US LLP*

Boston, Massachusetts  
September 30, 2016

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Management's Discussion and Analysis (Unaudited)**

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The Rhode Island Infrastructure Bank (the "Bank") is pleased to offer readers of these financial statements this narrative overview and analysis of the Bank's financial activities for the fiscal year ended June 30, 2016. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. The Bank encourages readers to consider the information presented here in conjunction with the financial statements as a whole.

**FINANCIAL HIGHLIGHTS – FISCAL YEAR 2016**

- The Bank's total assets at June 30, 2016 were \$1,620,542,428, which is an increase of \$176,562,368 or 12% above June 30, 2015.
- The Bank's operating revenues for the fiscal year ended June 30, 2016 were \$41,393,773, which is an increase of \$5,322,323 or 15% above the fiscal year ended June 30, 2015.
- The Bank's operating expenses for the fiscal year ended June 30, 2016 were \$37,240,628 which is a decrease of \$40,342 or less than 1% over the fiscal year ended June 30, 2015.
- The Bank's total net position for the fiscal year ended June 30, 2016 was \$587,777,315, which is an increase of \$46,111,972 or 9% over the fiscal year ended June 30, 2015.
- In fiscal year 2016, the Bank continued to receive capitalization grants from the Environmental Protection Agency ("EPA") for both the Clean Water State Revolving Fund ("CWSRF") and Drinking Water State Revolving Fund ("DWSRF") programs. The Bank also received a contributions from the State of Rhode Island for the Municipal Road and Bridge SRF ("MRBRF"), Efficient Building Fund ("EBF"). The continued capitalization of the Bank, combined with the Bank's access to the bond market, allowed the Bank to provide funding to all qualified borrowers during Fiscal 2016.

**INVESTMENT HIGHLIGHTS**

- For the fiscal year ended June 30, 2016, the Bank had an unrealized gain on investments of \$771,087. The unrealized gain was due to the change in market value at June 30, 2016 of investments held in the Local Interest Subsidy Trust Fund (LIST).
- Interest rates still being at historic lows has limited qualifying investment alternatives for existing cash, bond proceeds and grant funds. The interest rates on secured long-term investments required by the Bank financing model in the CWSRF and DWSRF may subject those programs to additional investment interest rate risk. Lower investment interest rates also reduce the Bank's loan capacity, the dollars available to fund new loans, while maintaining the same rate of loan interest subsidy.
- The Bank seeks investments that offer strong security to bondholders. Permitted investments are reviewed in the context of the current market to provide needed cash flows while meeting the Bank's rating criteria. Credit downgrade and collateral provisions are key criteria for each investment. The Bank's management is proactive in regularly monitoring investments and investment agreement providers and has taken swift action to address downgrades of investment agreement providers.

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Management’s Discussion and Analysis (Unaudited)**

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**INVESTMENT HIGHLIGHTS (Continued)**

- Over the past years, the credit rating downgrades of firms that have provided Guaranteed Investment Contracts (GIC's) have presented significant challenges for issuers that historically utilized GIC's in their investment portfolios. The Bank may request a return of its GIC investment upon credit rating trigger requirements whenever documents permit or by provider agreement. The first priority of the Bank's reinvestment strategy is preservation of principal or safety, followed by liquidity, and finally yield. In most cases, the current investment alternatives do not match the yields on the liquidated investments and in some cases, a cash contribution may be required to match prior cash flows at available investment yields.
- Due to low investment interest rates, the Bank has decided to invest Federal Capitalization Grants into federal direct loans instead of funding a LIST Fund. This aids the Bank as it reduces the amount of the Bank's bond issuance, thus reducing the Bank's debt and providing a better rate of return than the Bank could have received had it invested the funds in a LIST investment. This method results in increased Bank revenue.

**2016 LENDING SUMMARY**

During fiscal year 2016 the Bank issued \$97,705,000 in new debt for the CWSRF and DWSRF. The Bank closed a total of \$191,820,400 of new loans consisting of \$138,370,400 in the CWSRF to nine borrowers, \$1,500,000 in the Community Septic System Loan Program (“CSSLP”) to five borrowers, \$42,375,000 to three borrowers in the DWSRF, \$3,349,000 in Administrative Loans to two borrowers and \$6,226,000 in the MRBRF to four borrowers. The detail of the Bank's financing for fiscal 2016 was as follows:

- July 30, 2015 the Bank issued six CWSRF loans totaling \$82,428,400 to the following entities:

Burrillville	\$ 3,700,000
Narragansett Bay Commission	41,753,500
Newport	5,400,000
Warwick	10,574,900
West Warwick	7,000,000
Woonsocket	14,000,000
	<u>\$ 82,428,400</u>

- July 30, 2015 the Bank issued an Administrative Loan to the Town of Lincoln in the amount of \$849,000.
- August 6, 2015 the Bank issued a DWSRF loan to the Pawtucket Water Supply Board in the amount of \$5,907,000.
- August 19, 2015 the Bank issued a CSSLP loan to the Town of Tiverton in the amount of \$300,000.
- August 31, 2015 the Bank issued an Administrative Loan to the Town of Bristol in the amount of \$2,500,000.
- December 17, 2015 the Bank issued two DWSRF loans totaling \$31,750,000 to the following entities:

Cumberland	\$ 1,750,000
Providence Water Supply Board	30,000,000
	<u>\$ 31,750,000</u>

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Management's Discussion and Analysis (Unaudited)**

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**2016 LENDING SUMMARY (Continued)**

- January 27, 2016 the Bank issued a DWSRF loan to the Pawtucket Water Supply Board in the amount of \$4,718,000.
- March 23, 2016 the Bank issued a CSSLP loan to the Town of Hopkinton in the amount of \$300,000.
- March 28, 2016 the Bank issued a CSSLP loan to the Town of Portsmouth in the amount of \$300,000.
- April 19, 2016 the Bank issued four MRBRF loans totaling \$6,226,000 to the following municipalities:

Bristol	\$ 1,175,000
Cranston	1,755,000
New Shoreham	296,000
Pawtucket	3,000,000
	<u>\$ 6,226,000</u>

- May 24, 2016 the Bank issued a CSSLP loan to the Town of Jamestown in the amount of \$300,000.
- June 2, 2016 the Bank issued eight CWSRF loans totaling \$55,942,000 to the following entities:

Barrington	\$ 3,000,000
Bristol	2,500,000
Burrillville	2,600,000
East Greenwich	6,000,000
Narragansett Bay Commission	23,000,000
Newport	9,142,000
Warren	1,700,000
Warwick	8,000,000
	<u>\$ 55,942,000</u>

- June 6, 2016 the Bank issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Bank's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on the accrual basis. Under the accrual basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

**Statement of net position:** This statement presents information regarding the Bank's assets, liabilities and net position. Net position represents the total amount of assets plus deferred outflows of resources less the total liabilities. The statement of net position classifies assets, liabilities and net position as current, non-current and restricted.

**Statement of revenues, expenses and changes in net position:** This statement presents the Bank's operating revenues, operating expenses, non-operating revenues, and changes in net position for the fiscal year.

**Statement of cash flows:** The Bank's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

**Rhode Island Infrastructure Bank  
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**FINANCIAL ANALYSIS**

**NET POSITION**

The Bank's net position at June 30, 2016 was \$587,777,315, which is an increase of \$46,111,972 or 9% over June 30, 2015. Components of the Bank's statement of net position was as follows at June 30:

	2016	2015	2014
Other assets	\$ 1,620,417,048	\$ 1,443,904,853	\$ 1,530,061,696
Capital assets	125,380	75,207	80,186
Total assets	<u>1,620,542,428</u>	<u>1,443,980,060</u>	<u>1,530,141,882</u>
Deferred outflows of resources	<u>7,553,041</u>	<u>5,859,265</u>	<u>6,812,889</u>
Current liabilities	235,875,603	143,736,752	217,094,499
Non-current liabilities	803,338,092	764,437,229	798,499,080
Total liabilities	<u>1,039,213,695</u>	<u>908,173,981</u>	<u>1,015,593,579</u>
Deferred inflows of resources	<u>1,104,459</u>	-	-
Net position:			
Net investment in capital assets	125,380	75,207	80,186
Restricted for program purposes	531,687,428	497,412,843	477,557,093
Unrestricted	55,964,507	44,177,294	43,723,913
Total net position	<u>\$ 587,777,315</u>	<u>\$ 541,665,344</u>	<u>\$ 521,361,192</u>

**June 30, 2016:** The above noted increases in the Bank's total assets and decrease in liabilities demonstrates the Bank's continued growth. A large part of the 2016 increase resulted from the Bank closing six bond issues, three were new money issues and three refunding issues during fiscal year 2016. Total assets increased by \$176,562,368 from \$1,443,980,060 at June 30, 2015. Current liabilities increased by 64% from \$143,736,752 at June 30, 2015 to \$235,875,603 at June 30, 2016. This large increase resulted from additional loans executed but not disbursed, which increased project costs payable. At June 30, 2016 non-current liabilities totaled \$803,338,092 which is an increase of \$38,900,863 or 5% above June 30, 2015. The increases in unrestricted assets, restricted assets, and noncurrent liabilities are due mainly to the six bond issues that the Bank closed during fiscal year 2016.

**June 30, 2015:** Despite the above noted decreases in the Bank's total assets and liabilities the statement still confirms the Bank's growth. A large part of the 2015 decrease resulted from the Bank not closing a \$56.275 million Clean Water bond issue in March due to numerous delays. This would have resulted in \$82.4 million in loans issued during fiscal year 2015. Total assets decreased by 6% from \$1,530,141,882 at June 30, 2014 to \$1,443,980,060 at June 30, 2015. Current liabilities decreased by 34% from \$217,094,499 at June 30, 2014 to \$143,736,752 at June 30, 2015. At June 30, 2015 non-current liabilities totaled \$764,437,229 which is a decrease of \$34,061,851 or 4% below June 30, 2014. The decreases noted in unrestricted assets, restricted assets, and noncurrent liabilities are due mainly to the aforementioned Clean Water bond issue closing after the fiscal year ended.

**Rhode Island Infrastructure Bank  
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Management's Discussion and Analysis (Unaudited)**

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**FINANCIAL ANALYSIS (Continued)**

**CHANGES IN NET POSITION**

The Bank's change in net position for the fiscal year ended June 30, 2016 was \$46,111,971 an increased \$25,807,820 over the net position at June 30, 2015. The majority of the Bank's increase in its net position comes from the receipt of federal capitalization grants from EPA and the 20% match that the State of Rhode Island provides for the CWSRF and DWSRF. The Bank also had increases in interest income on its loans and an increase in investment income as well that contributed to the increase in its net position at June 30, 2016.

The Bank's change in net position for the fiscal year ended June 30, 2014 increased \$33,101,376 or 7%. There was an increase of \$3,208,551 in the federal capitalization grants due to an increase in construction draws by borrowers who had federal direct loans. There was also an increase in interest income (due to new loans) at June 30, 2014.

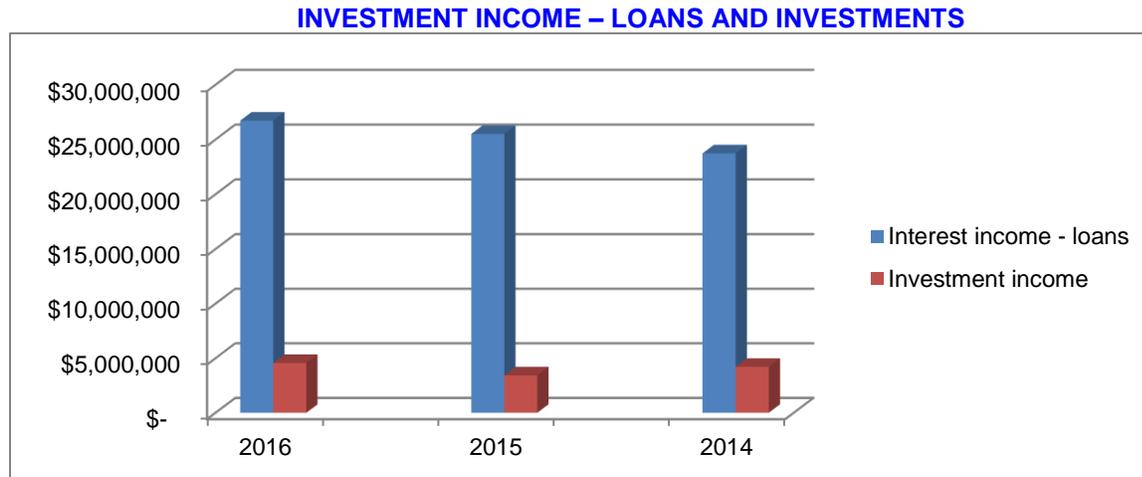
	2016	2015	2014
Interest income - loans	\$ 26,729,155	\$ 25,507,195	\$ 23,738,021
Investment income	4,570,500	3,430,248	4,215,886
Grant income - DEM & DOH	3,139,594	1,780,527	3,169,330
Other operating revenues	6,954,524	5,353,480	5,528,356
Total operating revenues	<u>41,393,773</u>	<u>36,071,450</u>	<u>36,651,593</u>
Interest expense	26,794,563	31,318,445	30,732,606
Other operating expenses:			
Consulting fees - DEM & DOH	3,505,045	2,590,814	3,545,965
Loan principal forgiveness	1,633,644	1,337,385	1,058,604
General administration	4,320,608	1,275,198	1,495,923
Professional fees	986,768	759,127	426,849
Total operating expenses	<u>37,240,628</u>	<u>37,280,969</u>	<u>37,259,947</u>
Operating income (loss)	<u>4,153,145</u>	<u>(1,209,519)</u>	<u>(608,354)</u>
Nonoperating revenues:			
Grant income - federal and state	41,958,826	21,094,563	33,709,730
Water quality protection charges	-	419,108	-
Total nonoperating revenues	<u>41,958,826</u>	<u>21,513,671</u>	<u>33,709,730</u>
Increase in net position	46,111,971	20,304,152	33,101,376
Net position, beginning of year	541,665,344	521,361,192	488,259,816
Net position, end of year	<u>\$ 587,777,315</u>	<u>\$ 541,665,344</u>	<u>\$ 521,361,192</u>

**Rhode Island Infrastructure Bank  
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**FINANCIAL ANALYSIS (Continued)**

As graphically portrayed below, the increase in interest income-loans is related to the Bank's portfolio growth. Interest income was \$26,729,155 at June 30, 2016, an increase of 4% over June 30, 2015. Interest income was \$25,507,195 at June 30, 2015, an increase of 8% over June 30, 2014.



As graphically portrayed above and stated earlier, investment income increased 33% to \$4,569,294 at June 30, 2016 from \$3,430,248 at June 30, 2015. The majority of this increase was due to the Bank closing three new money bond issues (two CWSRF and a DWSRF) during fiscal year 2016. The Bank also made one arbitrage rebate payments during fiscal year 2016. The stated increase was also due to unrealized gain on the Bank's investments and the increase in total investments as of June 30, 2016.

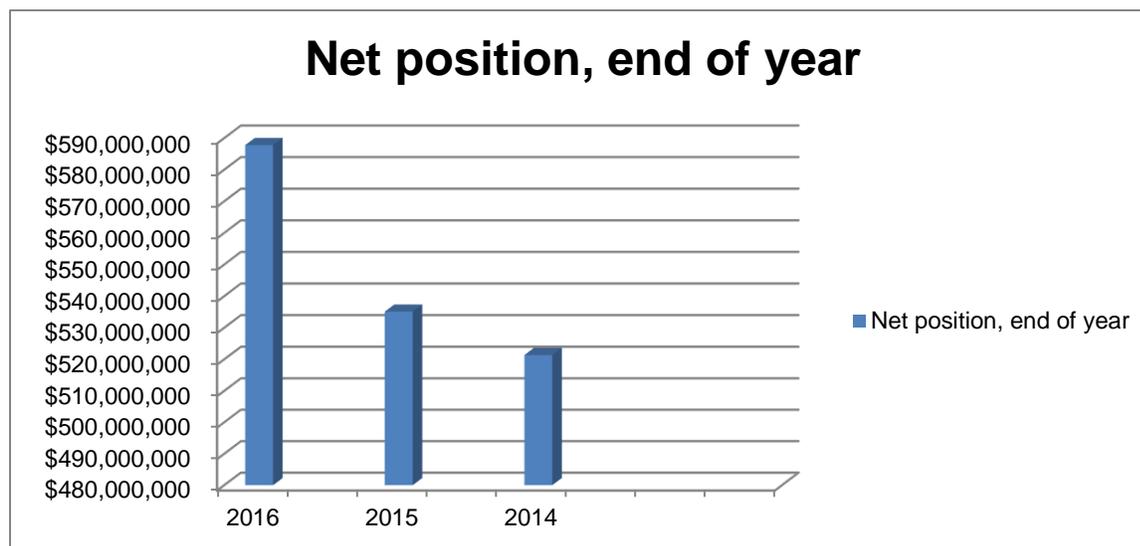
Investment income decreased 19% to \$3,430,248 at June 30, 2015 from \$4,215,886 at June 30, 2014. The majority of this decrease was due to the Bank not closing the Clean Water bond issue until after the fiscal year had closed. The Bank also made three arbitrage rebate payments during fiscal year 2015. The stated decrease was also due to unrealized losses on the Bank's investments and the decrease in total investments as of June 30, 2015.

**Rhode Island Infrastructure Bank  
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Management's Discussion and Analysis (Unaudited)**

**FINANCIAL ANALYSIS (Continued)**

Total net position at June 30, 2016 was \$587,777,315 representing a 9% increase over fiscal year June 30, 2015.

Total net position at June 30, 2015 was \$541,665,344 representing a 4% increase over fiscal year June 30, 2014.



The Bank's unrestricted balance for fiscal 2016 was \$55,964,507, up 27% over fiscal year 2015 amount of \$44,177,294. See chart below to see the different component.

	2016	2015
Unrestricted net position	<u>\$ 55,964,507</u>	<u>\$ 44,177,294</u>
Cash	27,463,090	26,835,916
Unspent project funds (loans issued but value undrawn)	(3,900,524)	(6,108,832)
Cash available for bank operations	<u>23,562,566</u>	<u>20,727,084</u>
Loans receivable (conduit related plus administrative loans)	99,263,481	103,943,499
Bonds payable (ties dollar to dollar with the conduit loans receivable)	(72,269,575)	(83,002,331)
Administrative loans portion of loans receivable	<u>26,993,906</u>	<u>20,941,168</u>
Other bank operations	<u>\$ 5,408,035</u>	<u>\$ 2,509,042</u>
Total unassigned unrestricted net position	<u>\$ 28,970,601</u>	<u>\$ 23,236,126</u>

The Bank expects to utilize a significant portion of its unassigned assets in the upcoming year to support its new programs that will be going into operations in fiscal 2017.

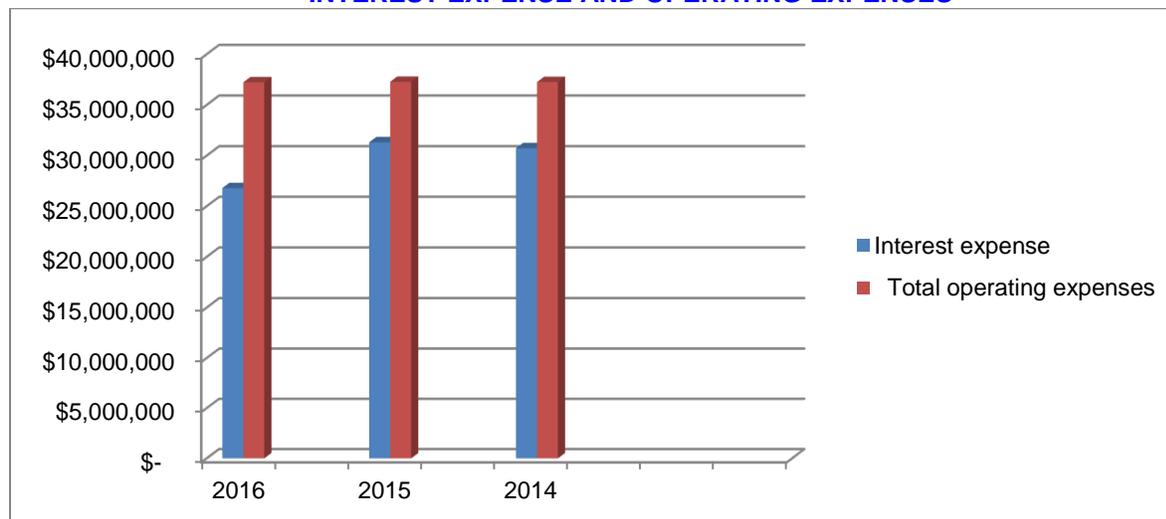
Interest expense was \$26,794,563 for fiscal year 2016, a 14% decrease over fiscal year 2015. The majority of the decrease was due to the Bank closing three refunding bond issues during fiscal year 2016. Operating expenses were \$37,240,628 for fiscal year 2016, a less than 1% decrease over fiscal year 2015. There was a \$914,231 increase in the Rhode Island Department of Environmental Management (DEM) and the Department of Health (DOH) consulting fees due to an increase in the utilization of set-asides. The Bank's principal forgiveness expense increased from fiscal year 2015 and will continue to increase as the loans continue to mature and additional loans are added annually.

**Rhode Island Infrastructure Bank  
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Management’s Discussion and Analysis (Unaudited)**

**FINANCIAL ANALYSIS (Continued)**

Interest expense was \$31,318,445 for fiscal year 2015, a 2% increase over fiscal year 2014. The majority of the increase was due to the Bank closing a Drinking Water bond issue in December. Operating expenses were \$37,280,969 for fiscal year 2015, a less than 1% increase over fiscal year 2014. Despite the increase in interest expense, there was a \$955,151 decrease in consulting fees due to a decrease in the utilization of set-asides. The Bank’s principal forgiveness expense increased from fiscal year 2014 and will continue to increase as the loans continue to mature and additional loans are added annually.

**INTEREST EXPENSE AND OPERATING EXPENSES**



**DEBT ADMINISTRATION**

The Bank administers the Water Pollution Control and the Rhode Island Water Pollution Control revolving loan funds created under Title VI of the Federal Clean Water Act and its State counterpart CWSRF. The Bank also administers the DWSRF created under the Federal Safe Drinking Water Act amendments of 1996. During fiscal year 2015 the Bank began a new State of Rhode Island program MRBRF. The Bank has established CSSLP as part of the CWSRF. The Bank also provides conduit loans to municipalities for various water and wastewater system improvements. The Bank administers a Rhode Island Zero Interest Loan Fund (RIZILF) which has issued 59 loans totaling \$255 million. The Bank has also established a Sewer Tie-In Loan Fund (STILF) under the Rhode Island Water Pollution Control Revolving Fund.

The Bank is presently working on several new programs that will go into operation during fiscal 2017. They include the Water Quality Protection Charge Program (WQPCP), EBF, Commercial Property Assessed Clean Energy (C-PACE), Brownfields Revolving Fund (BF), and Residential Property Assessed Clean Energy (R-PACE).

The Bank's balance of bond indebtedness was \$787,442,000 at June 30, 2016, a 5% increase from the \$746,553,000 outstanding at June 30, 2015. Detailed information related to the Bank’s debt is presented in Note 4 to the financial statements. The Bank (Board of Directors and Staff) is proud of the confidence placed in the Bank by the three nationally recognized rating services who continue to rate Bank Bonds as follows:

Fitch	AAA
Standard & Poor’s	AAA
Moody’s**	Aaa

\*\* Only rated through the 2009 SRF bonds

The Bank has experienced growth in all aspects of its operations and the future of the Bank continues in a positive direction.

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Management's Discussion and Analysis (Unaudited)**

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**DEBT ADMINISTRATION (Continued)**

The Bank's Board of Directors voted to designate all net assets in excess of the Bank's annual operating budget to be used for interim, short-term and long-term financing to qualified borrowers.

The Bank's investments are monitored monthly, including GIC contract providers, credit ratings and maturity dates. The Bank continues to remain pro-active by engaging an Independent Audit firm to conduct quarterly agreed-upon financial procedures.

Principal Forgiveness Loans – These are loans the EPA requires the Bank to issue. Starting with the 2009 ARRA Capitalization Grants for Clean Water and Drinking Water Programs, the EPA has required that a certain percentage of each Capitalization Grant must be issued to the Bank's borrowers as Principal Forgiveness Loans. The Bank awards the principal forgiveness over the life of the borrower's loan. As of June 30, 2016 the Bank issued a total of \$40,758,117 of Principal Forgiveness Loans and has forgiven \$5,890,840.

**FACTORS AFFECTING FUTURE OPERATIONS**

1. During fiscal year 2016 the Bank continues to receive funds from the state for the MRBRF. As of June 30, 2016 the State provided the Bank with \$2.6 million to fund loans during fiscal year 2017.
2. Guaranteed investment contract provider credit ratings are shown on page 32 and are stated as of June 30, 2016. Credit ratings during these uncertain times are subject to change. Readers are encouraged to access Moody's and Standard & Poor's websites to obtain the most recent credit ratings.

**REQUEST FOR INFORMATION**

The financial report is designed to provide a general overview of the Bank's financial activity for fiscal year 2016. If you have questions about this report or need additional financial information, contact the Rhode Island Infrastructure Bank, 235 Promenade Street, Suite 119, Providence, Rhode Island 02908, telephone number (401) 453-4430 or email us at [info@riinfrastructurebank](mailto:info@riinfrastructurebank).

**Rhode Island Infrastructure Bank**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Statement of Net Position**  
**June 30, 2016**

**Assets**

Current assets:

Cash, cash equivalents and investments

Unrestricted:

Cash equivalents

**Total unrestricted cash and cash equivalents**

\$ 32,010,287  
32,010,287

Restricted:

Cash and cash equivalents

Investments

**Total restricted cash, cash equivalents and investments**

217,241,264  
80,724,871  
297,966,135

Service fees receivable

Loans receivable

Accrued interest receivable:

Loans

Investments

Prepaid expenses and other receivables

**Total current assets**

1,722,418  
67,056,524  
8,821,999  
780,020  
99,910  
408,457,293

Noncurrent assets:

Loans receivable

Capital assets - property and equipment, net of accumulated depreciation

**Total noncurrent assets**

1,211,959,755  
125,380  
1,212,085,135

**Total assets**

1,620,542,428

Deferred outflows of resources

7,553,041

**Liabilities**

Current liabilities:

Project costs payable

Bonds payable

Accrued interest payable

Accounts payable and accrued expenses

Accrued arbitrage rebate

**Total current liabilities**

167,970,026  
58,010,150  
8,490,313  
805,330  
599,784  
235,875,603

Noncurrent liabilities:

Bonds payable, net of current portion

Accrued arbitrage rebate

**Total noncurrent liabilities**

802,912,780  
425,312  
803,338,092

**Total liabilities**

1,039,213,695

Deferred inflows of resources

1,104,459

Net investment in capital assets

125,380

Restricted for program purposes:

Water Pollution Control Revolving Fund

Drinking Water State Revolving Fund

Other programs

**Total restricted for program purposes**

314,046,636  
164,075,650  
53,565,142  
531,687,428

Unrestricted

55,964,507

**Total net position**

\$ 587,777,315

See notes to financial statements.

**Rhode Island Infrastructure Bank**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2016**

Operating revenues:	
Investment income	\$ 4,570,500
Interest income - loans	26,729,155
Grant income - operating	3,139,594
Loan servicing fees	5,051,320
Loan origination fees	1,903,204
<b>Total operating revenues</b>	<u>41,393,773</u>
Operating expenses:	
Interest expense	26,794,563
Consulting fees - Department of Environment Management and Department of Health	3,505,045
Bond issuance costs	2,712,613
Loan principal forgiveness	1,633,644
Employee expense	1,046,082
Legal fees	466,913
Accounting and auditing	217,067
Trustee/bank fees	185,571
Office expense	155,417
Promotional expenses	117,298
Financial advisor fees	117,217
Insurance expense	28,028
Depreciation expense	15,011
Dues and subscriptions	8,914
Business and travel expense	7,411
Seminars	4,128
Miscellaneous expense	225,706
<b>Total operating expenses</b>	<u>37,240,628</u>
<b>Operating income</b>	4,153,145
Non-operating revenues:	
Grant income - non-operating	<u>41,958,826</u>
<b>Change in net position</b>	46,111,971
Net position, beginning of the year	<u>541,665,344</u>
Net position, end of the year	<u><u>\$ 587,777,315</u></u>

See notes to financial statements.

**Rhode Island Infrastructure Bank**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Statement of Cash Flows**  
**Year Ended June 30, 2016**

Cash flows from operating activities:	
Cash receipts for loan repayments	\$ 72,394,959
Cash receipts for operating grants	3,139,594
Cash receipts for loan origination fees	1,903,204
Cash receipts for loan servicing fees	4,976,027
Cash payments for loan disbursement activities	(125,589,347)
Cash payments to suppliers	(4,561,965)
Cash payments to employees	(1,035,470)
<b>Net cash used for operating activities</b>	<u>(48,772,998)</u>
Cash flows from capital and related financing activities:	
Purchases of property and equipment	<u>(65,184)</u>
Cash flows from noncapital financing activities:	
Proceeds from bond issuance	245,909,203
Repayment of bond principal	(177,841,000)
Nonoperating grants received	48,334,257
Cash receipts for water quality protection charges	272,268
Interest paid on revenue bonds	(27,072,505)
Bond issuance costs	(2,712,613)
<b>Net cash provided by noncapital financing activities</b>	<u>86,889,610</u>
Cash flows from investing activities:	
Investment income	4,712,018
Interest income - loan program	26,366,646
Interest rebate paid to US Government	(213,376)
Proceeds from sale of investments, net	5,923,999
<b>Net cash provided by investing activities</b>	<u>36,789,287</u>
<b>Net increase in cash and cash equivalents</b>	74,840,715
Cash and cash equivalents, beginning of the year	<u>174,410,836</u>
Cash and cash equivalents, end of the year	<u>\$ 249,251,551</u>
Displayed as:	
Cash equivalents - unrestricted	\$ 32,010,287
Cash equivalents - restricted	<u>217,241,264</u>
	<u>\$ 249,251,551</u>
Reconciliation of operating income to net cash used for operating activities:	
Operating income	\$ 4,153,145
Adjustments:	
Depreciation	15,011
Amortization of bond premium and discounts, net	9,326,152
Investment income	(4,570,500)
Interest income - loans	(26,729,155)
Interest expense	17,468,411
Bond issuance costs	2,712,613
Loan principal forgiveness	1,633,644
Increase in loans receivable, net	(53,194,388)
Decrease in prepaid expenses	4,738
Increase in accounts payable and accrued expenses	482,624
Increase in accounts receivable - service fees	(75,293)
<b>Net cash used for operating activities</b>	<u>\$ (48,772,998)</u>
Supplemental cash flow information:	
Noncash transactions:	
Decrease in loans receivable issued related to project costs payable	<u>\$ (61,581,250)</u>
Increase in fair value of investments	<u>\$ 771,087</u>

See notes to financial statements.

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

**Organization:** The Rhode Island Infrastructure Bank (Bank), formerly the Rhode Island Clean Water Finance Agency, was established by the State of Rhode Island (State) Legislature, under Chapter 46-12.2 of the Rhode Island General Laws (1986) as amended, as a body politic and corporate and public instrumentality of the State having distinct legal existence separate from the State and does not constitute a department of the State Government. The Bank is a component unit of the State and, as such, its financial results are included in the State's annual financial report. Pursuant to an Operating Agreement between the United States Environmental Protection Agency (EPA) and the Bank, the Bank administers the State's Clean Water and Drinking Water State Revolving Fund (SRF) programs, (CWSRF) and (DWSRF), respectively.

As a result of enactment of Rhode Island Public Law Chapter 15-141, signed into law by the Governor on June 30, 2015, the name of the Rhode Island Clean Water Finance Agency was changed to the Rhode Island Infrastructure Bank. Pursuant to Chapter 15-141, this name change became effective September 1, 2015.

The Bank administers a Community Septic System Loan Program (CSSLP) as part of the Federal Clean Water State Revolving Fund. The Bank also administers a Sewer Tie-In Loan Program. In 2013, the Municipal Road and Bridge Revolving Fund (MRBRF) was established by the General Assembly to be administered by the Bank in conjunction with the Rhode Island Department of Transportation (DOT). In March 2015, pursuant to Rhode Island Public Laws Chapters 46-12.2, 46-15.1, and 46-15.3, the Bank began administering the Water Quality Protection Charge Program.

The Bank has no power to raise or collect taxes of any kind or to establish any generally applicable fees and charges, other than administrative fees charged directly to those borrowers that receive the benefit of the Bank's financing programs. The Bank, in its discretion, may charge cost of issuance fees to borrowers. The Bank commenced operations on July 29, 1990 and began lending activities during the first quarter of fiscal year 1992. The Bank is governed by a Board of Directors consisting of five members, four of whom are members of the public appointed by the Governor, with the advice and consent of the State Senate. The General Treasurer or such officer's designee, who shall be a subordinate within the General Treasurer's department, shall serve on the Board of Directors as an ex-officio member. The State is not responsible for the Bank's debt even though it appoints a voting majority of the Bank's governing board.

**Description of business:**

**Clean water and DWSRF programs:** The SRF programs, which were authorized by federal legislation – the Water Quality Act of 1987 for the CWSRF and the Safe Drinking Water Act of 1996 for the DWSRF – provide low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. The Bank's SRF program's primary activities include providing low-cost financing for eligible projects funded by the issuance of debt, providing low-cost interim financing for its borrowers, the investment of program funds, and the management and coordination of the programs.

SRF program capitalization grants are issued from the EPA to the Bank, for which the State is required to provide 20% in matching funds. The Bank's program is leveraged by issuing bonds to provide funds for loans. Federal and state grants and other monies available to the Bank are pledged to secure bonds by either financing reserve funds or pledged loans. Earnings on these pledged assets are used to pay a portion of the debt service on the related bonds, thereby reducing the borrowers' loan repayment obligation. The Bank provides loans to borrowers at 67% and 75% of the borrower's current market rate for the CWSRF and DWSRF, respectively.

**Rhode Island Infrastructure Bank  
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**Note 1. Summary of Significant Accounting Policies (Continued)**

The SRF programs are called the State Revolving Fund programs because as borrowers pay down the principal balances of their loans and as the Bank pays principal on its SRF bonds, proportional amounts are released from the reserves and/or loans pledged to secure the related SRF bonds. These funds come back to the Bank and "revolve" or are used to establish new reserve funds or loans to borrowers that are pledged as a source of payment and security, for new SRF bonds or for other eligible purposes.

Funds pertaining to the SRF programs are limited to specific uses by laws and regulations as well as Grant and Operating Agreements entered into between EPA and the Bank. As a result of these limitations on uses, these funds are classified as restricted on the statements of net position.

Included under the CWSRF program, the Bank has established a CSSLP under the Federal Act through which communities may borrow funds to address non- point source wastewater pollution abatement issues. The CSSLP gives communities the ability to provide their residents whose septic systems are failing, have failed or are substandard with low-cost funds for repair or replacement. Revolved capital provides funding for this direct loan program.

***Rhode Island Water Pollution Control Revolving Fund (RIWPCRF):*** This fund receives state capital contributions before the funds are transferred to the CWSRF and DWSRF. The Bank has the authority to use the fund to make loans, issue bonds and receive interest earnings or other capital from public or private sources. The fund has been used to finance projects not meeting the requirements of the federal programs. The following programs are included in the RIWPCRF:

*Rhode Island Zero Interest Loan Fund (RIZILF):* This program was established under the authority of Chapter 55 of the 2000 Public Laws of Rhode Island. The Bank received \$60 million from the State of which \$3 million was used for the Drinking Water state match and \$57 million was loaned to Narragansett Bay Commission (NBC) as an investment to provide the corpus of the funding of the zero interest loan program. NBC's repayments will be used to provide the additional subsidization provided to borrowers who have received a portion of their loan at 0% interest within the CWSRF. Under this program, borrowers whose rating is investment grade or better may receive 50% of their project costs at 0% interest and 50% of their project costs at the Bank's regular subsidy at 33% below the borrower's market rate. These two rates are blended thereby significantly reducing the borrower's interest payments to the Bank. Those borrowers whose rating is non-investment grade, including those borrowers which were non-investment grade within the twelve months prior to filing a loan application with the Bank, are eligible to receive 100% of their project funds, up to \$25 million, at 0% interest.

*Facility Plan Loan Program (FPLP):* This program allows the Bank to make low-interest loans to municipalities so facility plan documents, amendments, or updates can be completed. These facility plans are a prerequisite for funding from the CWSRF program. The loans have an interest rate of 1% and cannot exceed \$150,000. Revolved capital provides funding for this direct loan program.

*Sewer Tie-In Loan Fund (STILF):* This program allows communities to borrow funds to address non-point source wastewater pollution abatement issues. The STILF gives communities the ability to provide their residents low-cost financing for sewer connections. Revolved capital from the RIWPCRF provides funding for this direct loan program. The loans have an interest rate of 1% and cannot exceed \$10,000.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

***Municipal Road and Bridge Revolving Fund:*** The MRBRF was created under Title 24 Chapter 24-18 Section 24-18-4. This fund was established to provide municipalities with low-cost financial assistance for road and bridge projects. State statute requires the Bank to administer the financial components of this fund and requires the DOT to receive, review, and rank municipal road and bridge projects submitted for funding consideration on an annual basis. Communities receiving loans through the program receive one third off their market rate of borrowing. Borrowers are assessed a one-time 1% loan origination fee on the loan amount and a 0.5% service fee on the loans outstanding balance. Funding for the program is provided by the State through legislative appropriations and the deposit of any premium received on state bond issuances. Funds are disbursed after agreements have been executed, with payments made as funds are expended for the projects. To date, the Bank has made 19 loans to 14 communities totaling \$24.8 million, including loans to four communities totaling \$6.2 million in fiscal year 2016.

***Water Quality Protection Charge Program (WQPCP):*** In accordance with Article 5 of the State Appropriation Act, the Rhode Island Water Resources Board Corporate (Board Corporate) permanently ceased operations in June 2015. During March 2015, the Board Corporate's remaining receivables of approximately \$279,000 were transferred to the Bank. The remaining assets of the Board Corporate, consisting of cash and investments of approximately \$1,050,000, were transferred to the State's General Fund. This fund accounts for water quality protection charges received from various Rhode Island water suppliers. This program is being developed to provide low cost financing to water suppliers for water shed protection land acquisition, water pipe replacement, and other related projects.

***Efficient Buildings Fund (EBF):*** Authorized by Chapter 141 of the 2015 Public Laws of Rhode Island, the EBF will provide financing for energy efficiency and renewable energy projects in buildings owned by municipalities and quasi-state agencies. The fund has not made any loan during fiscal year 2016 but is expected to start funding loans in early fiscal year 2017.

***Commercial Property Assessed Clean Energy (C-PACE):*** The C-PACE program is an innovative financing tool for energy efficiency and renewable energy projects in commercial properties. RIIB finalized C-PACE rules and regulations in April 2016 and contracted with Sustainable Real Estate Solutions, Inc. to act as the third party program administrator. Authorized by Chapter 39-26.5 of Rhode Island General Laws, properties eligible for C-PACE financing include commercial, industrial, agricultural, non-profit and multifamily. The program is set to start making loans during fiscal year 2017.

***Residential Property Assessed Clean Energy (R-PACE):*** The R-PACE program, also authorized by Chapter 39-26.5 of the Rhode Island General Laws, will be a financing program for energy efficiency and renewable energy projects in residential properties. The program is set to start making loans during fiscal year 2017.

***Brownfields Revolving Loan Fund:*** The Brownfields Revolving Loan Fund will provide financing to public and private entities for the remediation of brownfield sites in Rhode Island. The Rhode Island Department of Environmental Management (DEM), in partnership with the Rhode Island Commerce Corporation, will be responsible for producing a project priority list of eligible sites for the Bank to provide financing. In June 2016, the Bank was awarded an \$820,000 grant from the EPA. The program is set to start making loans in fiscal year 2017.

**Basis of accounting:** The Bank is engaged only in business-type activities. The Bank's operations are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods or services is financed through user charges. The financial statements of the Bank are prepared using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for a special purpose entity engaged solely in business-type activities.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Revenue recognition:** Operating revenues, including interest income, and expenses are generated through the issuance of loans to governments and other eligible borrowers within the State. All other revenues and expenses are reported as nonoperating revenues and expenses.

Funding from federal capitalization grants and state matching grants are reported as nonoperating revenue. Federal capitalization grant revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements. Revenue recognition associated with these grants is based on the standard principles of eligibility, including timing requirements. The Bank recognizes grant revenue upon acceptance of their request for drawdowns by the grantor agency and when qualifying commitments and all other grant requirements have been satisfied.

The Bank's recent federal capitalization grants, beginning with the American Recovery and Reinvestment Act of 2009 (ARRA) grant received in 2009, required that a portion of the grant funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans. The Bank provides the additional subsidization in the form of principal forgiveness, which has been recorded as an operating expense.

**Fund accounting:** In order to ensure observation of limitations and restrictions placed on the use of resources available to the Bank, the accounts of the Bank are maintained in individual funds. This is a procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, funds will be combined for the presentation of the Bank's financial position and results of operations.

There are currently nine separate funds included in the accompanying financial statements:

**Water Pollution Control Revolving Fund:** Accounts for activity relating to administering the Federal Title VI SRF Loan Program (also known as the CWSRF Program).

**Rhode Island Water Pollution Control Revolving Fund:** Accounts for activity relating to administering the State SRF Loan Program.

**Operating Fund:** Accounts for the administrative activities of the Bank, including servicing loan programs and the DWSRF Set-Aside Program.

**Drinking Water State Revolving Fund:** Accounts for activity relating to administering the DWSRF Loan Program.

**Municipal Road and Bridge Revolving Fund:** Accounts for activity relating to administering the Municipal Road and Bridge Revolving Loan Program.

**Water Quality Protection Charge Program Fund:** Accounts for activity relating to administering the WQPCP.

**Efficient Building Fund:** Accounts for activity relating to administering the Efficient Building Fund Program.

**Commercial Property Assessed Clean Energy:** Accounts for activity relating to administering the C-PACE Program.

**Rhode Island Infrastructure Bank  
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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Residential Property Assessed Clean Energy:** Accounts for activity relating to administering the R-PACE Program.

**Brownfields Revolving Loan Fund:** Accounts for activity relating to administering the Brownfields Revolving Loan Fund.

**Cash and cash equivalents:** The Bank's cash equivalents include cash deposits at financial institutions and institutional money market accounts at the time of purchase. The Bank's policy is to treat all highly liquid investments with original maturities of three months or less as cash and cash equivalents.

**Investments:** Investments are stated at fair value. Fair values are established by quoted market values. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is defined by GASB Statement No. 31, *Certain Investments and External Pools*, as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Bank's investments as of June 30, 2016 consisted of U.S. Treasury obligations, U.S. agency obligations (e.g. FNMA, FHLMC, and FHLB), municipal bonds, U.S. guaranteed securities in the form of Repurchase Agreements, and Guaranteed Investment Contracts. The Bank's various indentures governing its outstanding bond issues restrict the Bank's ability to invest the proceeds of bonds issued thereunder (the indentured funds). Permitted investments under the indentures include, for example, obligations of the United States government or certain agencies thereof, guaranteed investment contracts, repurchase agreements, certificates of deposit, money market funds, commercial paper, and notes or bonds of any State, subject to specific ratings or other restrictions.

The Bank monitors its investment portfolio on a monthly basis, including guaranteed investment contract providers, their credit ratings, and maturity dates.

Guaranteed Investment Contract providers (GIC providers) are limited to financial institutions rated at least AA, Aa2 and AA from Standard & Poor's, Moody's and Fitch, respectively, or the equivalent for financial strength rating or claims paying ability. The GIC provider must meet the following ratings from S&P, Moody's and Fitch: domestic banks rated at least "AA/Aa2/AA"; U.S. branches of foreign banks rated at least "AA/Aa2/AA"; insurance companies (or corporations whose obligations are guaranteed by an insurance company (in the form of an insurance policy) or by an insurance holding company) rated "AAA/Aaa/AAA".

Should the GIC Provider's rating be suspended, withdrawn or downgraded below AA- by Fitch, Aa3 by Moody's or AA- by S&P during the term of the Agreement, the Provider must notify the Trustee and, within fifteen (15) days of receipt of notice from the Trustee: (i) provide to the Trustee, or other mutually agreed upon third party custodian, collateral which will be valued and held such that the Provider maintains the applicable minimum rating for the duration and purpose of the investment, or (ii) at the request of the Trustee, assign the Agreement to an eligible substitute provider, or (iii) at the request of the Trustee, repay the amount on deposit, plus accrued interest to the Trustee.

In accordance with Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet its minimum capital standards as required by its Federal regulator must be collateralized. The Bank did not have any deposits in fiscal year 2016 which required collateralization based on the aforementioned criteria.

**Rhode Island Infrastructure Bank  
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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Investment income:** Interest earned on investments is recognized as income in the fund in which the investments are held. Unrealized gains and losses from the changes in fair value are recognized as investment income on the statement of revenues, expenses, and changes in net position. For fiscal year ended June 30, 2016, the Bank had unrealized gains of \$771,087.

**Property and equipment:** Property and equipment are stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Depreciation expense for the fiscal year 2016 totaled \$15,011. The Bank's capitalization threshold is any individual item with a total cost greater than \$500.

Depreciation is provided by use of the straight-line method over the following estimated useful lives of the assets:

<u>Asset Category</u>	<u>Estimated Useful Life</u>
Computer equipment	3 years
Equipment, furniture, and fixtures	3 - 5 years
Leasehold improvements	7 - 20 years

**Bond issuance costs:** Bond issuance costs are recorded as operating expenses when incurred.

**Allowance for loan losses:** Management reviews loan receivable balances on a periodic basis for possible uncollectible amounts. In the event management determines a specific need for an allowance, provision for loss will then be provided. Should a borrower default on a loan, the remedy is found in the loan agreement which is backed by the full taxing power of the borrowing municipality in the form of a general obligation pledge or in the full revenue collecting ability of the Bank's revenue borrowers. Further, the Indenture of Trust as it relates to the Local Interest Subsidy Trust (LIST) serves as a debt service reserve fund. An allowance for loan losses has not been established at June 30, 2016 since historical collection experience has shown amounts to be fully collectible when due.

**Deferred inflows and outflows of resources:** A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the Bank consist of deferred refunding costs.

**Accrued arbitrage rebate:** The Bank has bonds outstanding which are subject to arbitrage limitations. The term "arbitrage rebate" refers to the required payment to the U.S. Treasury Department (Treasury) of excess earnings received on applicable tax-exempt bond proceeds that are invested at a higher yield than the yield of the tax-exempt bond issue. The Bank's ultimate rebate of arbitrage earnings on these issues is contingent on various factors, including future yields on invested proceeds. The amount the Bank will be required to remit to the federal government could differ materially from the estimated liability in the near term.

Based on interim calculations that were performed as of June 30, 2016, the Bank had accrued arbitrage rebate liabilities totaling \$1,025,096. During 2016 the Bank paid to the Treasury \$213,376 in arbitrage rebate liabilities. The rebate obligations are generally computed and adjusted, as applicable, on a periodic basis in accordance with regulations promulgated by the Treasury. Required rebates are generally due and payable in five-year intervals during the life of debt issues, with rebates due no later than 60 days after the retirement of the debt issues. Arbitrage rebate expense is presented as a reduction in the amount of interest income from investments.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Loan origination fees:** The Bank requires payment of loan origination fees at the time of loan closing. Loan origination fees are recognized as revenue in the period received.

**Project costs payable:** Project costs payable represents the liability of amounts loaned to borrowers that have not been requisitioned by the borrowers for their projects as of year-end, and totaled \$167,970,026 at June 30, 2016. Included in these amounts is \$52,116,820 payable to Narragansett Bay Commission, the Bank's largest borrower.

**Bond premium:** Bond premiums, included in long-term debt, are amortized using the effective interest method over the respective life of the associated bond issues. Net amortization of bond premiums and discounts, which are charged against interest expense, totaled \$9,326,152 for fiscal years 2016.

**Amount deferred on refunding:** During periods of declining interest rates, the Bank has refunded certain bond obligations reducing aggregate debt service. The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as an amount deferred on refunding. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter. The amortization amount is a component of interest on bonds, and the unamortized balances are recorded as deferred outflows or inflows.

**Compensated absences:** The Bank has a policy which allows employees to accumulate unused vacation and sick leave benefits up to a certain maximum number of days. Compensated absences are recognized as current salary costs when incurred and are recorded in accounts payable and accrued expenses in the statement of net position. The balance of accrued vacation and sick leave was \$142,724 at June 30, 2016.

**Net position:** Net investment in capital assets represents capital assets, net of accumulated depreciation. Net position of the Bank is classified as restricted when external constraints are imposed by debt agreements, grantors, contributors, or laws or regulations of governments or constraints imposed by law through constitutional provisions or enabling legislation. The Bank's net position is restricted by debt covenants and grantor restrictions. Unrestricted net position has no external restrictions and is available for the operations of the Bank. Unrestricted net position may be designated by actions of the Bank.

**Operating revenues and expenses:** Substantially all revenues and expenses, including interest received on investments and loans and interest paid on bonds, are considered operating items since the Bank issues bonds to finance loans for specific projects. All other revenues and expenses not meeting this criteria are reported as nonoperating revenue and expenses. In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, federal EPA capitalization grants, state grants, and water quality protection charges are shown below operating income (loss) on the statements of revenue, expenses and changes in net position.

**Restricted assets:** Restricted assets of the Bank consist of cash and cash equivalents, and investments designated primarily for borrower construction drawdowns, borrower interest rate subsidies, and arbitrage rebate liabilities related to the Water Pollution Control Revolving Fund, Rhode Island Water Pollution Control Revolving Fund, Drinking Water State Revolving Fund, Municipal Road and Bridge Revolving Fund, and the Water Quality Protection Charge Program. Certain loans receivable in the Water Pollution Control Revolving Fund and Drinking Water State Revolving Fund provide security for the related bonds. Loan payments received are restricted for payment of bond debt service.

**Resource use:** When both restricted and unrestricted resources are available for use, it is the Bank's policy to use restricted resources first, then unrestricted resources as they are needed.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Recent pronouncements:** The GASB has issued the following standards that were effective during the current reporting period or will be effective in future periods:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This Statement is effective for financial statement periods beginning after June 15, 2015. The adoption of this pronouncement did not have a significant impact on the Bank's financial statements.

In June, 2015, the GASB issued GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 addresses the accounting and financial reporting rules for pension plans and sponsoring employers that are not covered under Statement No. 67 and No. 68. Generally, the provisions of Statement No. 73 are effective for fiscal years beginning after June 15, 2015. The adoption of this pronouncement did not have a significant impact on the Bank's financial statements.

In June, 2015, the GASB issued GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to Benefit Plans other than pension plans (OPEB) plans that administer benefits on behalf of governments through trusts that meet the GASB's specified criteria. It replaces GASB Statement No. 43 and requires more extensive note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution OPEB plans. The provisions of Statement No. 74 are effective for plan fiscal years beginning after June 15, 2016. This pronouncement will not have an effect on the Bank's financial statements.

In June, 2015, the GASB issued GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. The Bank's management has not determined the effect, if any, this Statement will have on its financial statements.

In June, 2015, the GASB issued GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement is effective for reporting periods beginning after June 15, 2015. The adoption of this standard did not have a significant impact on the Bank's financial statements.

In August, 2015, the GASB issued GASB No. 77, *Tax Abatement Disclosures*. This Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The Bank does not have taxing authority and does not issue tax abatements, therefore this pronouncement will not have an effect on the financial statements.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

In December, 2015, the GASB issued GASB No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is effective for financial statement periods beginning after December 15, 2015. This pronouncement will have no effect on the Bank's financial statements.

In December, 2015, the GASB issued GASB No. 79, *Certain External Investment Pools and Pool Participants*. This Statement permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and provides guidance that will allow many pools to continue to qualify for amortized cost accounting. Existing standards provide that external investment pools may measure their investments at amortized cost for financial reporting purposes if they follow substantially all of the provisions of the SEC's Rule 2a7. Likewise, participants in those pools are able to report their investments in the pool at amortized cost per share. GASB 79 replaces the reference in existing GASB literature to Rule 2a7 with criteria that are similar in many respects to those in Rule 2a7. GASB 79 is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The adoption of this standard did not have a significant impact on the Bank's financial statements.

In January, 2016, the GASB issued GASB No. 80 *Blending Requirements for Certain Component Units- An Amendment of GASB Statement No. 14*. The Statement clarifies the display requirements in GASB Statement No. 14, *The Financial Reporting Entity*, by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government. The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. Although GASB 80 applies to a limited number of governmental units, such as, for example, public hospitals, the GASB intends for it to enhance the comparability of financial statements among those units and improve the value of this information for users of state and local government financial statements. This Statement is effective for financial statement periods beginning after June 15, 2016. This pronouncement will have no effect on the Bank's financial statements.

In March, 2016, the GASB issued GASB No. 81 *Irrevocable Split-Interest Agreements*. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB 81 requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statement periods beginning after December 15, 2016. This pronouncement will have no effect on the Bank's financial statements.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

In March, 2016, the GASB issued GASB No. 82 *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses, among other things, presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. GASB 82 is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB 67, 68, and 73. This Statement is effective for financial statement periods beginning after June 15, 2017. This pronouncement will have no effect on the Bank's financial statements.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income tax:** The Bank is a component unit of the State and is therefore, generally exempt from federal income taxes under Section 115 of the Internal Revenue Code.

**Note 2. Cash, Cash Equivalents and Restricted Investments**

**Custodial credit risk – deposits:** Custodial credit risk is the risk that in the event of a bank failure, the Bank's deposits may not be returned. The Bank does not have a formal deposit policy for custodial credit risk and therefore, does not limit the amount of deposit custodial credit risk. The Bank mitigates custodial credit risk by ensuring that cash deposits that exceed federal depository insurance are collateralized and by investing in institutional money market accounts - government portfolio that are "AAA" rated.

At June 30, 2016, the carrying amount of the Bank's cash deposits was \$13,973,169. The bank balance was \$16,298,267 as of the same period, of which \$250,025 was covered by the Federal Depository Insurance Corporation (FDIC) and \$16,048,242 was uninsured and collateralized by securities held by the pledging institution's trust department in the Bank's name. The difference between the carrying amount and the bank balance is due to outstanding reconciling items (primarily outstanding checks) at year-end.

Cash and cash equivalents consisted of the following at year-end:

Description

Cash on hand	\$ 100
Deposits with financial institutions	13,973,169
Institutional money market accounts - government portfolio	235,278,282
	<u>\$ 249,251,551</u>

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**Note 2. Cash, Cash Equivalents and Restricted Investments (Continued)**

**Fair value measurement:** The Bank's investments are recorded at fair value as of June 30, 2016, pursuant to the provisions of GASB No. 31, *Certain Investments and External Investment Pools*, and GASB No. 72, *Fair Value Measurement and Application*. GASB No. 31 established accounting and financial reporting standards for all investments held by governmental external investment pools. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. The Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1:** Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that the Bank can access at the measurement date.
- Level 2:** Investments with inputs—other than quoted prices included in Level 1—that are observable for an asset, either directly or indirectly.
- Level 3:** Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The Bank's investments within the fair value hierarchy are summarized below as of June 30:

Investment Type	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. agencies	\$ -	\$ 24,548,569	\$ -	\$ 24,548,569
U.S. treasuries	-	1,339,985	-	1,339,985
Municipal bonds	-	11,304,244	-	11,304,244
Collateralized repurchase agreements	-	3,334,690	-	3,334,690
Guaranteed investment contracts	-	40,197,383	-	40,197,383
Total investments	<u>\$ -</u>	<u>\$ 80,724,871</u>	<u>\$ -</u>	<u>\$ 80,724,871</u>

The Bank utilizes the market approach for valuing its investments. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

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**Note 2. Cash, Cash Equivalents and Restricted Investments (Continued)**

The Bank's investments consisted of the following at June 30:

Description	Amount	Date	Interest Rate	Rating Moody's/S&P as of 06/30/16
US agency and Treasury securities:				
Federal National Mortgage Association	\$ 2,252,075	2016 – 2026	1.75% - 6.12%	AAA/AA+
Federal Home Loan Mortgage Corp	14,325,635	2016 – 2028	1.00% - 6.875%	AAA/AA+
Federal Home Loan Bank	7,970,859	2016 – 2023	4.75% - 5.625%	AAA/AA+
Treasury Bonds and Notes	1,339,985	2016 – 2021	1.00% - 3.25%	AAA/AAA
Subtotal	<u>25,888,554</u>			
Municipal bonds:				
Texas - College Student Loan Refunding	1,258,116	2017	5.00%	AAA/AAA
Washington State	820,492	2019	4.50%	AA2/N/R
Oregon State	9,225,636	2017 – 2023	4.535% - 5.435%	AA2/AA
Subtotal	<u>11,304,244</u>			
Collateralized repurchase agreements:				
Portigon (formerly Westdeutsche LB)*	3,334,690	2019	4.71%	Aaa/AAA
Subtotal	<u>3,334,690</u>			
Guaranteed investment contracts:				
Bayern LB*	161,932	2016	5.00% - 5.60%	Aaa/AAA
Bayern LB*	5,372,776	2020	5.33%	Aaa/AAA
FSA Capital Management**	6,136,448	2024	4.71%	A2/AA
FSA Capital Management**	9,693,135	2025	4.67%	A2/AA
FSA Capital Management**	4,821,564	2027	4.79%	A2/AA
FSA Capital Management**	696,021	2028	5.06%	A2/AA
Citigroup Financial Products***	8,753,444	2027	4.80%	Baa1/A****
Mass Mutual Life Insurance Company	4,562,063	2029	4.498%	Aa2/AA+
Subtotal	<u>40,197,383</u>			
Total investments	<u>\$ 80,724,871</u>			

\* Guaranteed by Free State of Bavaria

\*\* Guaranteed by Assured Guaranty Municipal Corporation

\*\*\* Guaranteed by Citigroup, Inc.

\*\*\*\* As of June 30, 2016, this GIC Provider's rating was downgraded below the minimum rating requirements as disclosed in Note 1. The Bank determined the downgrade did not warrant subsequent action.

**Custodial credit risk - investments:** Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Bank will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Bank requires that all investment agreements be collateralized either upon execution of such agreement or upon the happening of certain events, and at all times thereafter, by securities or other obligations issued or guaranteed by the United States, by certain federal agencies having a market value of not less than 100% of the amount currently on deposit or in accordance with their respective agreement. The Bank has a policy which requires the monthly monitoring of custodial credit risk, including the review of institutional credit ratings.

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**Note 2. Cash Equivalents and Restricted Investments (Continued)**

**Credit risk:** Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The risk is evidenced by a rating issued by a nationally recognized statistical rating organization, which regularly rate such obligations. The majority of the Bank's investments are in GICs or in Treasury or agency securities. The Treasury and agency securities are all backed by the federal government. The GICs either have collateral requirements in place upon execution of the investment agreement, or have triggered collateral requirements under which, upon a rating downgrade below a specified level, the counterparty is typically required to do one of three actions: 1) post collateral to a level sufficient to maintain an AA rating, 2) assign the investment contract to a new counterparty that has at least a AA rating, or 3) provide credit enhancement to maintain a rating on the investment contract of at least AA.

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Bank's investments. The Bank limits its exposure to interest rate risk by entering into guaranteed investments contracts and federally guaranteed fixed income securities for all of its long-term investments upon which the Bank relies to meet its obligations.

At June 30, maturities of the Bank's investment were as follows:

Description	Total Fair Value	Less than 1	1 – 5	6 – 10	More than 10
U.S. agency securities	\$24,548,569	\$ 1,260,114	\$14,798,770	\$ 7,337,943	\$ 1,151,742
U.S. Treasury securities	1,339,985	635,603	95,302	609,080	-
Municipal bonds	11,304,244	1,218,001	7,535,400	497,131	2,053,712
Collateralized repurchase agreements	3,334,690	-	3,334,690	-	-
Guaranteed investment contracts	40,197,383	161,932	5,372,776	15,829,583	18,833,092
	<u>\$80,724,871</u>	<u>\$ 3,275,650</u>	<u>\$31,136,938</u>	<u>\$24,273,737</u>	<u>\$22,038,546</u>

**Concentration of credit risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The issuers where investments exceeded 5% of the Bank's total investments are as follows at June 30:

Provider	Percentage of Total Investments
FSA Capital Management	26%
Oregon State Municipal Bond	11%
Citigroup Financial Products	11%
Bayern LB	7%
Mass Mutual Life Insurance Co.	6%

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**Note 3. Loans Receivable**

At June 30, 2016, the Bank had loans receivable of \$1,279,016,279 representing 232 outstanding loans, respectively, which are restricted for payment of bond debt service. At June 30, 2016, the current portion of loans receivable totaled \$67,056,524. In addition, at June 30, 2016, the Bank had outstanding unused commitments (project costs payable) totaling approximately \$167,970,026.

The borrowers are obligated to repay the full balance of loan agreements; however, funds are disbursed by the Bank in accordance with the loan agreements as costs are incurred for the projects for which the loans are intended. The Bank disburses funds to the borrowers and/or vendors, no more than once a month, after receipt of an official request for disbursement, which is accompanied by supporting documentation. The Bank is obligated to disburse funds only up to the value of the loan agreement, and is not responsible for any excess costs incurred by the borrower. The borrower, in turn, is obligated to make principal and interest payments in accordance with the repayment schedules per the loan documentation even if funds have not been fully disbursed by the Bank at the time of first payment. Loans are usually repaid over 20 years with either level principal or level total payments. The balances of the loan agreements may include financing for the interest expense to be incurred by the borrowers during the period of construction.

The Bank has established a LIST Fund, which is restricted by the Indenture of Trust between the trustee and the Bank and may be used to make the required bond payments in the event of default by the borrowers.

The Bank had loans receivable to three borrowers representing approximately 54% of the Bank's total loan receivable balance at June 30, 2016.

**Principal forgiveness loans:** The Bank has received ARRA and non-ARRA capitalization grants which can be used to issue principal forgiveness loans. The Bank was awarded ARRA Capitalization Grants for use in its Clean Water and DWSRFs. ARRA Grants are for purposes consistent with the intent of Clean Water and DWSRF, including construction of wastewater treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The ARRA Capitalization Grants do not require a state match component. The ARRA Capitalization Grants stipulated that the Bank must have committed loans to recipients with signed construction contracts by February 17, 2010; this requirement was met in 2010.

The Bank's total capitalization grants available for principal forgiveness loans at June 30, are summarized below:

Capitalization Grant	CWSRF		
	Capitalization Grant Award	Principal Forgiveness Component	Principal Forgiveness Loans Issued as of June 30, 2016
2009 (ARRA)	\$ 26,314,600	\$ 13,157,300	\$ 13,157,300
2010	13,681,000	2,048,980	2,048,980
2011	9,915,000	918,782	918,782
2012	9,486,000	527,198	527,198
2013	8,955,000	500,000	500,000
2014	9,410,000	512,070	512,070
2015	9,361,000	-	-
	<u>\$ 87,122,600</u>	<u>\$ 17,664,330</u>	<u>\$ 17,664,330</u>

**Rhode Island Infrastructure Bank  
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**Note 3. Loans Receivable (Continued)**

The above schedule includes \$11,396,592 in principal forgiveness loans issued to NBC, the Bank's largest borrower.

Capitalization Grant	DWSRF		
	Capitalization Grant Award	Principal Forgiveness Component	Principal Forgiveness Loans Issued as of June 30, 2016
2009 (ARRA)	\$ 19,500,000	\$ 9,750,000	\$ 9,750,000
2010	13,573,000	4,071,900	4,071,900
2011	9,418,000	2,825,400	2,825,400
2012	8,975,000	1,795,000	1,795,000
2013	8,421,000	1,684,200	1,684,200
2014	8,845,000	1,769,000	1,435,780
2015	8,787,000	1,757,400	1,531,507
	<u>\$ 77,519,000</u>	<u>\$ 23,652,900</u>	<u>\$ 23,093,787</u>

Loans made to eligible borrowers under the CWSRF and DWSRF programs may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bank has loans outstanding totaling \$34,867,277 at June 30, 2016, that upon fulfillment of these requirements by the borrower, could be forgiven at some future point. For purposes of the basic financial statements, the Bank recognizes principal forgiveness expense as the related loans are repaid. The total amount forgiven under these programs in 2016 was \$1,633,644. The amounts are included in loan principal forgiveness in the statement of revenues, expenses, and changes in net position.

**Note 4. Bonds Payable**

Since its inception, the Bank has issued revenue bonds to local governments to finance water pollution abatement projects and as of March 4, 2004, safe drinking water projects. The bonds are special obligations of the Bank payable solely from and secured by the particular funds, assets or revenues, generated by the Borrower Bonds. The bonds do not constitute an indebtedness of the State or any of its subdivisions and none of its revenues are pledged. The Bank has no taxing power.

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**Note 4. Bonds Payable (Continued)**

The Bank had the following revenue bonds outstanding at June 30:

**Water Pollution Control Revolving Fund Revenue Bonds**

1995 Series A Bonds, dated December 15, 1995, at rates varying from 4.15% to 7.00% due annually from October 1, 1997 through October 1, 2016. On May 6, 2010, the Bank advance refunded \$415,000 of the outstanding bonds	\$ 240,000
1999 Series A Bonds, dated January 1, 1999, with serial bonds of \$19,590,000 at rates varying from 3.7% to 5.25% due annually from October 1, 2002 through October 1, 2016 and term bonds of \$3,765,000 at 4.75% due October 1, 2018 and \$2,470,000 at 4.75% due October 1, 2020. On May 6, 2010, the Bank advance refunded \$4,990,000 of the outstanding bonds	5,800,000
1999 Series C Bonds, dated August 1, 1999, with serial bonds of \$24,010,000 at rates varying from 4.15% to 5.50% due annually from October 1, 2001 through October 1, 2019. On May 6, 2010, the Bank advance refunded \$4,985,000 of the outstanding bonds	3,365,000
2000 Series A Bonds, dated December 1, 2000 with serial bonds of \$26,550,000 at rates varying from 4.50% to 5.125% due annually from October 1, 2001 through October 1, 2020. On May 6, 2010, the Bank advance refunded \$7,430,000 of the outstanding bonds	3,820,000
2002 Series A Bonds, dated April 1, 2002 with serial bonds of \$29,305,000 at rates varying from 3.00% to 5.50% due annually from October 1, 2002 through October 1, 2022. On May 6, 2010, the Bank advance refunded \$7,505,000 of the outstanding bonds	6,185,000
2002 Series B Bonds, dated October 1, 2002, with serial bonds of \$76,035,000 at rates varying from 2.0% to 5.0% due annually from October 1, 2004 through October 1, 2022. On May 6, 2010, the Bank advance refunded \$25,260,000 of the outstanding bonds	10,630,000
2006 Series A Bonds, dated December 21, 2006, with serial bonds of \$57,795,000 at rates varying from 3.40% to 5.00% due annually from October 1, 2007 through October 1, 2027. On October 6, 2015, the Bank advance refunded \$27,085,000 of the outstanding bonds	11,040,000
2007 Series A Bonds, dated December 12, 2007 with serial bonds of \$39,740,000 at rates varying from 4.00% to 5.00% due annually from October 1, 2009 through October 1, 2028. On June 2, 2016, the Bank advance refunded \$24,740,000 of the outstanding bonds	4,080,000
2009 Series A Bonds, dated October 6, 2009, with serial bonds of \$41,555,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2011 through October 1, 2030	6,760,000
2010 Series A Refunding Bonds, dated May 6, 2010, with serial bonds of \$77,140,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2010 through October 1, 2023	51,725,000

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**Note 4. Bonds Payable (Continued)**

2010 Series B Bonds, dated June 24, 2010, with serial bonds of \$30,145,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2012 through October 1, 2030.	27,955,000
2011 Series A Bonds, dated March 29, 2011, with serial bonds of \$40,200,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2012 through October 1, 2032.	34,820,000
2012 Series A Bonds, dated June 28, 2012, with serial bonds of \$25,620,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2014 through October 1, 2033.	23,400,000
2012 Series B Refunding Bonds, dated November 8, 2012, with serial bonds of \$65,860,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2013 through October 1, 2025.	55,665,000
2013 Series A Bonds, dated June 6, 2013, with serial bonds of \$52,070,000 at rates varying from 1.50% to 5.00% due annually from October 1, 2015 through October 1, 2034.	51,310,000
2014 Series A Bonds, dated February 20, 2014, with serial bonds of \$55,925,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2015 through October 1, 2034.	54,080,000
2015 Series A Bonds, dated July 30, 2015, with serial bonds of \$56,275,000 at rates varying from 3% to 5% due annually from October 1, 2017 through October 1, 2044.	56,275,000
2015 Series B and 2015 Series C Refunding Bonds, dated October 6, 2015, with serial bonds of \$24,345,000 at rates varying from 2% to 5% due annually from October 1, 2016 through October 1, 2026; and serial bonds of \$23,355,000 at rates varying from 1.75% to 5% due annually from October 1, 2018 through October 1, 2027, respectively. The Bank's defeasance of the 2005A and 2006A bonds resulted in economic present value savings of \$5,259,859 or 10%.	47,700,000
2016 Series A Refunding Bonds, dated June 2, 2016, with serial bonds of \$49,060,000 at rates varying from 1.75% to 5% due annually from October 1, 2018 through October 1, 2030. The Bank's defeasance of the 2007A and 2009A bonds resulted in economic present value savings of \$6,074,803 or 11%.	49,060,000
2016 Series B Bonds, dated June 2, 2016, with serial bonds of \$18,790,000 at rates varying from 2% to 5% due annually from October 1, 2017 through October 1, 2037.	18,790,000

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**Note 4. Bonds Payable (Continued)**

**Safe Drinking Water Revenue Bonds**

2005 Series A Bonds, dated March 23, 2005, with serial bonds of \$42,960,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2006 through October 1, 2027. On June 26, 2013, the Bank advance refunded \$17,280,000 of the outstanding bonds. The remaining bonds are due October 1, 2013 through October 1, 2015 and October 1, 2025 through October 1, 2027	5,620,000
2007 Series A Bonds, dated March 7, 2007, with serial bonds of \$5,135,000 at rates varying from 4.00% to 4.125% due annually from October 1, 2008 through October 1, 2019	2,350,000
2008 Series A Bonds, dated June 5, 2008, with serial bonds of \$36,350,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2010 through October 1, 2029	30,515,000
2009 Series A Bonds, dated November 19, 2009, with serial bonds of \$9,935,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2011 through October 1, 2030	8,990,000
2012 Series A Bonds, dated June 14, 2012, with serial bonds of \$34,620,000 at rates varying from 0.55% to 5.00% due annually from October 1, 2014 through October 1, 2033	31,515,000
2013 Series A Bonds, dated May 14, 2013, with serial bonds of \$35,780,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2015 through October 1, 2034	34,675,000
2013 Series B Refunding Bonds, dated June 26, 2013, with serial bonds of \$38,790,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2015 through October 1, 2024	37,080,000
2014 Series A Bonds, dated December 4, 2014, with serial bonds of \$13,090,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2016 through October 1, 2036 and term bonds of \$1,085,000 at 3.50% due October 1, 2025 and term bonds of \$3,350,000 at 5.00% due October 1, 2036	13,090,000
2015 Series A Bonds, dated December 17, 2015, with serial bonds of \$22,640,000 at rates varying from 2% to 5% due annually from October 1, 2017 through October 1, 2037.	22,640,000

**Non-SRF Drinking Water Revenue Bonds**

1997 Series Bonds, dated August 1, 1997. The Series 1997 Bonds mature on September 1, 2022, with sinking fund payments due on September 1, 1999, and September 1, 2018 through September 1, 2022, inclusive. Interest of 5.8% is due annually on March 1, and September 1	28,490,000
2008 Wastewater Revenue Bonds dated April 30, 2008, with serial bonds of \$4,000,000 at 4.85% due annually from March 1, 2009 through March 1, 2028	2,825,000
2011 Series A Bonds, (City of Newport), dated March 31, 2011 with serial bonds of \$10,345,000 at 4.30% due annually from September 1, 2011 through September 1, 2026	8,220,000
2012 Series A Bonds, (City of Warwick), dated June 26, 2012, with serial bonds of \$2,400,000 at 3.285% due annually from August 1, 2012 through August 1, 2022.	1,757,000
2013 Series A Revenue Bonds (Town of Coventry), dated September 3, 2013 with serial bonds of \$8,225,000 at 4.25% due annually from September 1, 2014 through September 1, 2028	7,400,000
2011 Series A Bonds, (City of Newport), dated September 30, 2011 with serial bonds of \$6,640,000 at 3.4% due annually from September 1, 2012 through September 1, 2027	5,310,000
2015 Series Refunding Bonds (City of Pawtucket), dated December 18, 2015, with serial bonds of \$24,265,000 at rates varying from 3.5% to 5% due annually from October 1, 2025 through October 1, 2035. The Bank's defeasance of the 2003A and 2003B bonds resulted in economic present value savings of \$4,237,086 or 16%.	24,265,000
Subtotal	787,442,000
Add bond premium (discount), net of amortization	73,480,930
Total bonds payable	<u>\$ 860,922,930</u>

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**Note 4. Bonds Payable (Continued)**

Long-term liability activity for the year ended June 30, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long term debt:					
General obligation debt	\$ 746,553,000	\$ 218,730,000	\$ 177,841,000	\$ 787,442,000	\$ 44,603,000
Plus bond premium (discount), net of amortization	60,512,770	27,179,203	14,211,043	73,480,930	-
Total long-term debt	<u>\$ 807,065,770</u>	<u>\$ 245,909,203</u>	<u>\$ 192,052,043</u>	<u>\$ 860,922,930</u>	<u>\$ 44,603,000</u>

Annual principal and interest requirements are as follows for the year ending June 30, 2016:

	Principal	Interest	Total
2017	\$ 44,603,000	\$ 33,822,241	\$ 78,425,241
2018	48,255,000	32,593,857	80,848,857
2019	52,218,000	30,458,382	82,676,382
2020	57,266,000	27,954,488	85,220,488
2021	56,883,000	25,319,533	82,202,533
2022 - 2026	243,142,000	90,180,486	333,322,486
2027 - 2031	171,975,000	42,307,713	214,282,713
2032 - 2036	99,605,000	11,168,080	110,773,080
2037 - 2041	7,735,000	1,931,400	9,666,400
2042 - 2044	5,760,000	972,550	6,732,550
	<u>\$ 787,442,000</u>	<u>\$ 296,708,730</u>	<u>\$ 1,084,150,730</u>

**Advanced refunding of debt:** The Bank deposits bond proceeds from refunding bonds with an escrow agent to provide resources for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the financial statements. The balances of bonds defeased "in substance" and still outstanding are as follows:

Description	Redemption Date	Defeased Bonds Outstanding June 30, 2016
2015 Series C Clean Water	October 6, 2015	\$ 25,460,000
2016 Series A Clean Water	June 2, 2016	54,285,000
Total		<u>\$ 79,745,000</u>

**Deferred outflows and inflows of resources:** When the Bank refunds or advance refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the old debt. The resulting accounting gain or loss is then amortized over the life of the refunding bonds or remaining life of the defeased bonds, whichever is lesser. The excess of the reacquisition price over the carrying value of the defeased bonds is recorded as deferred outflows of resources on the statement of net position. The excess of the carrying value of the defeased bond over the reacquisition price is recorded as deferred inflows of resources on the same.

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**Note 4. Bonds Payable (Continued)**

The deferred outflows were as follows at June 30:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning balance	\$ 5,859,265	\$ -
Additions	2,591,800	1,182,084
Reductions	(898,024)	(77,625)
Ending balance	<u>\$ 7,553,041</u>	<u>\$ 1,104,459</u>

**Bond anticipation notes:** The Bank utilizes short-term borrowing to provide interim financing to borrowers. The Bank had no short-term debt activity for the year ended June 30, 2016.

**Note 5. Capitalization Grants**

Under Title VI of the Federal Clean Water Act of 1972, as amended by the Federal Water Quality Act of 1987 (together with any regulations promulgated thereunder the "Federal Act"), the General Assembly of the State enacted the Act, which established the Water Pollution Control Revolving Fund (the Revolving Fund) to be administered and maintained by the Bank. Under the Act, the DEM is directed to promulgate rules and regulations pertaining to applications by borrowers for financial assistance for water pollution abatement projects. No project is eligible for financing by the Bank until the DEM has issued its Certificate of Approval. The Certificate of Approval specifies, among other things, the estimated project costs that are eligible for financial assistance and other terms and conditions relating to the construction and operation of projects. The DEM and the Bank entered into a Memorandum of Understanding dated December 6, 1990, as amended, pursuant to which the DEM agreed to assume programmatic responsibilities for the Revolving Fund and the Bank agreed to assume the financial and operational responsibilities of the Revolving Fund including the determination of the type of financial assistance to be provided to applicants.

In 1996, Congress amended the Safe Drinking Water Act of 1974 (as amended, the "Federal Act") to improve and provide financial support for the nation's public water systems. As required by the Federal Act, the General Assembly of the State enacted under Chapter 12.8 of Title 46 of the Rhode Island General Laws, as amended, a law entitled "The Water Projects Revolving Loan Fund" (the DWSRF Act), which established the DWSRF to be administered and maintained by the Bank. Under the Act, the Department of Health of the State (DOH) is directed to promulgate rules and regulations pertaining to applications by borrowers for financial assistance for safe drinking water projects. No project is eligible for financing by the Bank until the DOH has issued its Certificate of Approval. The Certificate of Approval specifies, among other things, the estimated project costs that are eligible for financial assistance and other terms and conditions relating to the construction and operation of projects. The DOH and the Bank entered into a Memorandum of Understanding dated July 13, 2000, as amended, pursuant to which the DOH agreed to assume programmatic responsibilities for the DWSRF and the Bank agreed to assume the financial and operational responsibilities of the DWSRF including the determination of the type of financial assistance to be provided to applicants.

**CWSRF:** The Bank receives capitalization grants from the EPA for the CWSRF under Title VI of the Clean Water Act. These grants are used to fund the Bank's lending activities and to reimburse the DEM for up to 4% of the capitalization grant for expenses incurred for services they provide the Bank related to these lending activities. In order to obtain the federal monies under the Title VI grant program, the Bank must also obtain a commitment for state matching funds of 20% of the federal award.

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**Note 5. Capitalization Grants (Continued)**

The following is a table of the federal and state matching funds awarded to the Bank and the balances remaining for drawdown under Title VI of the Clean Water Act as of June 30:

Grant Year	Award	Balance Remaining for Drawdown
2014:		
Federal award	\$ 9,410,000	\$ 730,438
State match	\$ 1,882,000	\$ -
2015:		
Federal award	\$ 9,361,000	\$ 9,361,000
State match	\$ 1,872,200	\$ -
2016:		
Federal award (applied for July 2016)	\$ 8,962,000	N/A
State match (applied for July 2016)	\$ 1,792,400	N/A

**DWSRF:** The Bank also receives capitalization grants from the EPA for the DWSRF under Section 1452 of the Safe Drinking Water Act Amendments of 1996. The grants will be used to provide loans to water suppliers for system improvements and to provide funding for various improvement programs administered by the DOH to bring water suppliers in the State up to the minimum standards promulgated by the Safe Drinking Water Act. In order to receive the funding from EPA, the Bank must commit 20% of the Federal award in the form of State matching funds. The Bank agrees to provide, through methods available to it, the appropriate state matching funds to each grant.

The DWSRF allows the DOH to "set-aside" up to 31% of the annual capitalization grants in four set-aside accounts as follows: 1) 4% for program administration which is to be split between the Department of Health and the Bank, 2) up to 2% for technical assistance, 3) up to 10% for state program management, and 4) up to 15% for local assistance.

The following is a table of the federal and state matching funds awarded to the Bank and the balances remaining for drawdown under the Safe Drinking Water Act as of June 30:

Grant Year	Award	Balance Remaining for Drawdown
2014:		
Federal award	\$ 8,845,000	\$ 409,070
State match	\$ 1,769,000	\$ -
2015:		
Federal award	\$ 8,787,000	\$ 8,188,679
State match	\$ 1,757,000	\$ -
2016:		
Federal award (applied for July 2016)	\$ 8,312,000	N/A
State match (applied for July 2016)	\$ 1,662,400	N/A

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**Note 6. Deferred Compensation**

The Bank offers its employees “The Rhode Island Clean Water Protection Finance Agency Deferred Compensation Plan” (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Bank employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Bank’s Board of Directors is responsible for establishing or amending the Plan’s provisions and establishing or amending contribution requirements. The defined contribution Plan is currently administered by Voya Retirement Insurance and Annuity Company.

The Bank implemented the Governmental Accounting Standards Board, Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As a result, deferred compensation investments and the respective liability have been removed from the Bank’s financial statements for the years ended June 30, 2016.

After the completion of one year’s employment, the Bank is currently obligated to remit to the administrator an amount equal to 10% of employee compensation on a monthly basis. The Bank’s Board of Directors shall annually establish the contribution percentage. Employees immediately vest in the employer contributions, therefore, there are no employee forfeitures. The Bank’s contribution totaled \$51,903 for the year ended June 30, 2016. The Bank has no outstanding liability related to the Plan at June 30, 2016. Employees are allowed to make contributions to the Plan up to, but not exceeding, the lesser of 33 1/3% of their individual compensation or \$18,000 (\$24,000 if age 50 or older). There is no additional obligation incurred by the Bank as a result of the employee contributions. Employee contributions to the Plan for the years ended June 30, 2016 was \$32,565. The Bank has an obligation to prudently manage these monies.

**Note 7. Operating Lease**

On June 1, 1998, the Bank entered into a seven year lease, with renewal options, for the rental of its corporate offices. During fiscal year 2013, the Bank renewed its existing lease agreement for a period of 5 years commencing July 1, 2013 and expiring June 30, 2018. During fiscal year 2016, the Bank amended its lease, increasing the square footage of the office by 1,366 effective February 1, 2016 and extending the term to January 31, 2021. The Bank incurred rent expense of \$89,875.

<u>Year Ending June 30:</u>	<u>Amount</u>
2017	\$ 110,137
2018	110,137
2019	112,340
2020	114,587
2021	116,879
	<u>\$ 564,080</u>

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Notes to Financial Statements**

**Note 8. Property and Equipment**

The summary of changes in property and equipment at June 30, are summarized below:

	Balance at June 30, 2015	Additions	Retirements	Balance at June 30, 2016
<b>Cost:</b>				
Computers	\$ 57,927	\$ 26,090	\$ -	\$ 84,017
Furniture and fixtures	34,665	-	-	34,665
Equipment	33,476	28,948	-	62,424
Leasehold improvements	79,839	10,146	-	89,985
Total cost	205,907	65,184	-	271,091
<b>Accumulated depreciation:</b>				
Computers	(49,845)	(5,325)	-	(55,170)
Furniture and fixtures	(26,747)	(2,593)	-	(29,340)
Equipment	(33,269)	(3,101)	-	(36,370)
Leasehold improvements	(20,839)	(3,992)	-	(24,831)
Total accumulated depreciation	(130,700)	(15,011)	-	(145,711)
Net capital assets	\$ 75,207	\$ 50,173	\$ -	\$ 125,380

**Note 9. Commitments and Contingencies**

**Capitalization grants:** The Bank receives grants from the EPA and the State to fund its loan program activities. These amounts are subject to audit and adjustment by the federal government. Any disallowed claims, including amounts already collected may constitute a liability of the Bank. The EPA conducts annual fiscal and regulatory compliance reviews to determine that Bank activities are in compliance with EPA regulations. As of June 30, 2016, no expenditures of the Bank have been disallowed. Bank officials believe that any future disallowance of expenditures would not be material.

**Note 10. Designation of Unrestricted Net Position**

The Bank's Board has designated its unrestricted net position as follows:

**Operating fund - interim/short-term loan program:** On October 4, 2004, the Board voted to designate all net assets in excess of the Bank's annual operating budget to be used for loans to qualified borrowers. The amount of these Board designated funds totaled \$51,867,748 at June 30, 2016.

**Note 11. Risk Management**

The Bank is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions and injuries to employees. The Bank has purchased commercial insurance to protect itself from potential liabilities from losses or claims. To date, the Bank has not incurred any claims or losses. There were no significant reductions in insurance coverage from the prior year, and there have been no settlements that exceed the Bank's insurance coverage during the past three years.

**Rhode Island Infrastructure Bank  
(A Component Unit of the State of Rhode Island and Providence Plantations)  
Notes to Financial Statements**

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**Note 12. Significant Concentrations**

**Current economic conditions:** Beginning in 2008, the U.S. economy experienced uncertainty and instability in the financial markets and a number of other sectors of the economy. The Congress, U.S. Treasury and the Federal Reserve have taken a number of actions in an attempt to provide liquidity to the credit markets, to save and create jobs and to stabilize the overall economy. At this time the impacts of these actions cannot be determined.

Existing collateralized investments and counterparty financial institutions are being closely monitored to ensure contractual obligations are being met and contingency plans are being developed, should action be required. The continued uncertainty in the financial markets limits the qualifying investment alternatives for existing cash, bond proceeds and grant funds. The interest rates on secure investments continue to be at or near historic lows and long-term investments required by the Bank's financing model in the CWSRF and the DWSRF may subject those programs to additional investment interest rate risk. Lower investment interest rates also reduce the Bank's loan capacity, the dollars available to fund new loans, while maintaining the same rate of loan interest subsidy. The Bank also continues to monitor market conditions for the economic feasibility of issuing refunding bonds.

Like other areas of the country, Rhode Island communities are experiencing budget shortfalls. The impact of these economic conditions on the Bank's borrowers and their ability to continue to make timely loan repayments is difficult to determine; however, the loans are secured predominantly by revenues from essential water and sewer services. Some communities, particularly smaller communities, may generally be more vulnerable to the effects of downturns in the economy. The Bank continues to monitor the financial status of its borrowers as part of an overall loan portfolio monitoring process.

**Note 13. Subsequent Events**

Management has evaluated potential subsequent events through September 30, 2016, the date the financial statements were issued. There were no additional items requiring adjustment of the financial statements or additional disclosure.

# RHODE ISLAND INFRASTRUCTURE BANK

## SUPPLEMENTARY INFORMATION

This section contains the following:

Combining Fund Financial Statements for:

Water Pollution Control Revolving Fund (WPCRF) – This fund is used to account for amounts received and expended from the Federally Capitalized SRF, Title VI of the Clean Water Act, along with amounts received and expended from the 20% required state matching of federal funding.

Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) – This fund accounts for amounts received from state contributions and expended to finance projects not meeting the requirements for federal programs. This fund also accounts for the activity of the Facility Plan Loan Program, the Rhode Island Zero Interest Loan Fund, and the Sewer Tie-in Loan Fund.

Operating Fund – This fund is used to account for amounts received and expended for the general and administrative costs not applicable to the other funds.

Drinking Water State Revolving Fund (DWSRF) – This fund accounts for amounts received and expended from the Federally Capitalized SRF, the Safe Drinking Water Act of 1996, along with amounts received and expended from the required state matching of federal funding.

Municipal Road and Bridge Revolving Fund (MRBRF) – This fund accounts for amounts received and expended to provide low-cost financial assistance for road and bridge projects.

Water Quality Protection Charge Program (WQPCP) – This fund accounts for water quality protection charges received from various Rhode Island water suppliers. This program is being developed to provide low cost financing to water suppliers for water shed protection land acquisition, water pipe replacement, and other related projects.

Rhode Island Infrastructure Bank  
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Combining Schedule of Net Position  
June 30, 2016

	OPERATING	WPCRF	RIWPCRF	DWSRF	MRBRF	WQPCP	EBF	Total
<b>Assets</b>								
Current assets:								
Cash, cash equivalents and investments								
Unrestricted:								
Cash equivalents	\$ 27,463,090	\$ -	\$ -	\$ -	\$ -	\$ 1,242,897	\$ 3,304,300	\$ 32,010,287
<b>Total unrestricted cash and cash equivalents</b>	<b>27,463,090</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,242,897</b>	<b>3,304,300</b>	<b>32,010,287</b>
Restricted:								
Cash and cash equivalents	-	141,041,396	4,347,588	59,374,259	12,478,021	-	-	217,241,264
Investments	14	59,652,191	-	21,072,666	-	-	-	80,724,871
<b>Total restricted cash, cash equivalents and investments</b>	<b>14</b>	<b>200,693,587</b>	<b>4,347,588</b>	<b>80,446,925</b>	<b>12,478,021</b>	<b>-</b>	<b>-</b>	<b>297,966,135</b>
Service fees receivable	1,722,418	-	-	-	-	-	-	1,722,418
Loans receivable	1,143,000	51,378,312	14,535,212	-	-	-	-	67,056,524
Accrued interest receivable:								
Loans	1,329,719	4,621,563	144,946	2,638,796	86,975	-	-	8,821,999
Investments	-	575,302	-	204,718	-	-	-	780,020
Prepaid expenses and other receivables	98,124	-	-	1,786	-	-	-	99,910
<b>Total current assets</b>	<b>31,756,365</b>	<b>257,268,764</b>	<b>19,027,746</b>	<b>83,292,225</b>	<b>12,564,996</b>	<b>1,242,897</b>	<b>3,304,300</b>	<b>408,457,293</b>
Noncurrent assets:								
Loans receivable	102,021,005	752,831,877	2,224,396	330,795,962	24,086,515	-	-	1,211,959,755
Capital assets - property and equipment, net of accumulated depreciation	125,380	-	-	-	-	-	-	125,380
<b>Total noncurrent assets</b>	<b>102,146,385</b>	<b>752,831,877</b>	<b>2,224,396</b>	<b>330,795,962</b>	<b>24,086,515</b>	<b>-</b>	<b>-</b>	<b>1,212,085,135</b>
<b>Total assets</b>	<b>133,902,750</b>	<b>1,010,100,641</b>	<b>21,252,142</b>	<b>414,088,187</b>	<b>36,651,511</b>	<b>1,242,897</b>	<b>3,304,300</b>	<b>1,620,542,428</b>
Deferred outflows of resources	512,343	5,694,517	-	1,346,181	-	-	-	7,553,041
<b>Liabilities</b>								
Current liabilities:								
Project costs payable	3,900,524	111,506,968	458,630	43,676,826	8,427,078	-	-	167,970,026
Bonds payable	1,838,299	46,666,737	-	9,505,114	-	-	-	58,010,150
Accrued interest payable	1,158,729	5,312,256	-	2,019,328	-	-	-	8,490,313
Accounts payable and accrued expenses	805,330	-	-	-	-	-	-	805,330
Accrued arbitrage rebate	-	599,784	-	-	-	-	-	599,784
<b>Total current liabilities</b>	<b>7,702,882</b>	<b>164,085,745</b>	<b>458,630</b>	<b>55,201,268</b>	<b>8,427,078</b>	<b>-</b>	<b>-</b>	<b>235,875,603</b>
Noncurrent liabilities:								
Bonds payable, net of current portion	70,431,276	536,346,313	-	196,135,191	-	-	-	802,912,780
Accrued arbitrage rebate	-	403,053	-	22,259	-	-	-	425,312
<b>Total noncurrent liabilities</b>	<b>70,431,276</b>	<b>536,749,366</b>	<b>-</b>	<b>196,157,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>803,338,092</b>
<b>Total liabilities</b>	<b>78,134,158</b>	<b>700,835,111</b>	<b>458,630</b>	<b>251,358,718</b>	<b>8,427,078</b>	<b>-</b>	<b>-</b>	<b>1,039,213,695</b>
Deferred inflows of resources	191,048	913,411	-	-	-	-	-	1,104,459
Net position:								
Net investments in capital assets	125,380	-	-	-	-	-	-	125,380
Restricted for program purposes	-	314,046,636	20,793,512	164,075,650	28,224,433	1,242,897	3,304,300	531,687,428
Unrestricted	55,964,507	-	-	-	-	-	-	55,964,507
<b>Total net position</b>	<b>\$ 56,089,887</b>	<b>\$ 314,046,636</b>	<b>\$ 20,793,512</b>	<b>\$ 164,075,650</b>	<b>\$ 28,224,433</b>	<b>\$ 1,242,897</b>	<b>\$ 3,304,300</b>	<b>\$ 587,777,315</b>

**Rhode Island Infrastructure Bank**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2016**

	OPERATING	WPCRF	RIWPCRF	DWSRF	MRBRF	WQPCP	EBF	Total
Operating revenues:								
Investment income	\$ 56,176	\$ 3,394,316	\$ 2,356	\$ 1,105,821	\$ 11,831	\$ -	\$ -	\$ 4,570,500
Interest income - loans	4,490,315	13,817,171	449,678	7,685,779	286,212	-	-	26,729,155
Grant income - operating	2,795,499	344,095	-	-	-	-	-	3,139,594
Loan servicing fees	5,051,320	-	-	-	-	-	-	5,051,320
Loan origination fees	1,903,204	-	-	-	-	-	-	1,903,204
<b>Total operating revenues</b>	<b>14,296,514</b>	<b>17,555,582</b>	<b>452,034</b>	<b>8,791,600</b>	<b>298,043</b>	<b>-</b>	<b>-</b>	<b>41,393,773</b>
Operating expenses:								
Interest expense	(3,205,403)	22,212,930	-	7,787,036	-	-	-	26,794,563
Consulting fees - D.E.M. and D.O.H.	2,681,121	628,224	-	-	-	-	195,700	3,505,045
Bond issuance costs	527,691	1,864,495	-	320,427	-	-	-	2,712,613
Loan principal forgiveness	-	598,394	-	1,035,250	-	-	-	1,633,644
Employee expense	1,046,082	-	-	-	-	-	-	1,046,082
Legal fees	466,913	-	-	-	-	-	-	466,913
Accounting and auditing	217,067	-	-	-	-	-	-	217,067
Trustee/bank fees	185,571	-	-	-	-	-	-	185,571
Office expense	155,417	-	-	-	-	-	-	155,417
Promotional expenses	117,298	-	-	-	-	-	-	117,298
Financial advisor fees	117,217	-	-	-	-	-	-	117,217
Insurance expense	28,028	-	-	-	-	-	-	28,028
Depreciation expense	15,011	-	-	-	-	-	-	15,011
Dues and subscriptions	8,914	-	-	-	-	-	-	8,914
Business and travel expense	7,411	-	-	-	-	-	-	7,411
Seminars	4,128	-	-	-	-	-	-	4,128
Miscellaneous expense	225,706	-	-	-	-	-	-	225,706
<b>Total operating expenses</b>	<b>2,598,172</b>	<b>25,304,043</b>	<b>-</b>	<b>9,142,713</b>	<b>-</b>	<b>-</b>	<b>195,700</b>	<b>37,240,628</b>
<b>Operating income (loss)</b>	<b>11,698,342</b>	<b>(7,748,461)</b>	<b>452,034</b>	<b>(351,113)</b>	<b>298,043</b>	<b>-</b>	<b>(195,700)</b>	<b>4,153,145</b>
Non-operating revenues:								
Grant income - non-operating	174,575	12,833,965	8,193,071	13,784,413	2,649,013	823,789	3,500,000	41,958,826
<b>Change in net position</b>	<b>11,872,917</b>	<b>5,085,504</b>	<b>8,645,105</b>	<b>13,433,300</b>	<b>2,947,056</b>	<b>823,789</b>	<b>3,304,300</b>	<b>46,111,971</b>
Transfer from (to) other funds	440,123	7,693,458	(11,475,115)	3,531,719	(190,185)	-	-	-
Net position, beginning of year	43,776,847	301,267,674	23,623,522	147,110,631	25,467,562	419,108	-	541,665,344
Net position, end of year	\$ 56,089,887	\$ 314,046,636	\$ 20,793,512	\$ 164,075,650	\$ 28,224,433	\$ 1,242,897	\$ 3,304,300	\$ 587,777,315

# RHODE ISLAND INFRASTRUCTURE BANK

## STATISTICAL SECTION

This part of the Rhode Island Infrastructure Bank’s (the “Bank”) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information reveals about the government’s overall financial health.

The statistical schedules differ from other financial statement presentations because they generally disclose more than one fiscal year and present non-accounting data such as social and economic data and financial trends of the Bank.

<b><u>Contents</u></b>	<b><u>Page</u></b>
Financial Trends	
These schedules contain trend information to help the reader understand how the Bank’s financial performance and fiscal health have changed over time.	41 – 42
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting the Bank’s ability to provide interim loans and general obligations.	43 – 44
Debt Capacity	
These schedules present information to help the reader assess the affordability of the Bank’s current levels of outstanding debt and the Bank’s ability to issue additional debt in the future.	45 – 47
Operating Information	
These schedules contain information to help the reader understand how the information in the Bank’s financial report relates to the services the Bank provides and the activities it performs.	48 – 49
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Bank’s financial activities take place.	50 – 52

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Net Position by Component (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
2016	\$ 125	\$ 531,687	\$ 55,965	\$ 587,777
2015	75	497,413	44,177	541,665
2014	80	477,557	43,724	521,361
2013	25	448,630	39,605	488,260
2012	30	425,024	34,696	459,750
2011	29	399,830	30,350	430,209
2010	37	358,370	25,892	384,299
2009	37	336,939	23,275	360,251
2008	46	329,259	22,114	351,419
2007	35	318,427	18,114	336,576

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Changes in Net Position (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income/Loss</u>	<u>Nonoperating Income</u>	<u>Change in Net Position</u>
2016	\$ 41,394	\$ 37,241	\$ 4,153	\$ 41,959	\$ 46,112
2015	36,072	37,281	(1,209)	21,513	20,304
2014	36,652	37,260	(608)	33,709	33,101
2013	34,148	36,140	(1,992)	30,501	28,509
2012	37,608	35,251	2,357	27,564	29,921
2011	30,735	33,688	(2,953)	48,863	45,910
2010	33,727	32,034	1,693	22,356	24,049
2009	32,506	31,860	646	8,186	8,832
2008	33,741	29,802	3,939	10,904	14,843
2007	31,523	28,150	3,373	15,015	18,388

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Operating Revenue Components (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Interest Income Loans</u>	<u>Grant Income Operating</u>	<u>Service Fees</u>	<u>Loan and Other Origination Fees</u>	<u>Total Operating Revenues</u>
2016	\$ 4,571	\$ 26,729	\$ 3,140	\$ 5,051	\$ 1,903	\$ 41,394
2015	3,430	25,507	1,781	4,790	564	36,072
2014	4,216	23,738	3,169	4,512	1,017	36,652
2013	2,783	21,885	3,574	4,159	1,748	34,149
2012	8,970	20,243	3,094	3,792	1,509	37,608
2011	5,819	18,033	2,496	3,535	852	30,735
2010	10,391	16,881	2,248	3,386	821	33,727
2009	9,630	16,364	2,428	3,332	752	32,506
2008	12,377	15,371	2,176	3,144	673	33,741
2007	10,973	14,875	2,123	2,934	618	31,523

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Operating Expense Components (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Interest Expense</u>	<u>Loan Principal Forgiveness</u>	<u>Consulting Fees</u>	<u>Administrative Expense</u>	<u>Professional Expense</u>	<u>Total Operating Expense</u>
2016	\$ 26,795	\$ 1,634	\$ 3,505	\$ 4,321	\$ 985	\$ 37,240
2015	31,318	1,337	2,591	1,275	760	37,281
2014	30,732	1,059	3,546	1,496	427	37,260
2013	28,153	894	3,574	3,128	391	36,140
2012	29,183	804	3,094	1,269	422	34,772
2011	29,448	163	2,496	1,224	357	33,688
2010	28,153	-	2,248	1,147	486	32,034
2009	27,651	-	2,428	1,214	567	31,860
2008	26,379	-	2,176	1,015	232	29,802
2007	24,889	-	2,123	964	174	28,150

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Rhode Island Infrastructure Bank's Ten Largest Payors (unaudited)**  
 Current and Ten Years Ago

<u>LOAN PAYOR / BORROWER</u>	<u>FY 2016 RANK</u>	<u>% OF REVENUE</u>	<u>FY 2007 RANK</u>	<u>% OF REVENUE</u>
Narragansett Bay Commission	1	33.12	1	41.00
City of Newport	2	10.30	7	2.07
Providence Water Supply Board	3	8.64	12	1.34
City of Warwick	4	7.56	2	18.22
City of Pawtucket	5	6.46	3	10.78
City of East Providence	6	6.37	21	0.31
City of Woonsocket	7	3.67	9	1.96
RI Airport Corporation	8	2.72	*N/R	**0.00
Town of Bristol	9	2.52	6	2.57
Town of West Warwick	10	2.36	4	4.35

\*No Rank available

\*\*Borrower / Payor after June 30, 2007

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Bond Issuances (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Number of Bond Issuance</u>	<u>Total Bond Amount</u>
2016	6	\$ 218,730
2015	1	13,090
2014	2	64,150
2013	4	192,500
2012	4	69,280
2011	2	50,545
2010	4	158,775
2009	0	-
2008	3	80,090
2007	2	62,930

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Debt Schedule (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Bond Premium / (Discount) Net of Amortization</u>	<u>Amount deferred on Refunding</u>	<u>Bonds Payable, Net</u>
2016	\$ 787,442	\$ 73,481	\$ -	\$ 860,923
2015	746,553	60,513	-	807,066
2014	774,122	63,500	-	837,622
2013	746,959	61,448	-	808,407
2012	706,985	36,763	(4,008)	739,740
2011	671,225	29,979	(4,585)	696,619
2010	652,710	28,213	(5,162)	675,761
2009	602,605	17,282	(669)	619,218
2008	631,340	18,320	(778)	648,882
2007	576,950	16,645	(887)	592,708

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Loan Agreements (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Clean Water State Revolving Fund</b>										
Number of Loan Agreements	19	2	7	10	10	10	21	1	17	13
Total Loan Agreement Amounts	\$ 139,870	\$ 600	\$ 90,900	\$ 81,970	\$ 56,695	\$ 62,640	\$ 139,306	\$ 300	\$ 53,821	\$ 65,863
<b>Drinking Water State Revolving Fund</b>										
Number of Loan Agreements	4	3	2	6	7	-	14	2	4	4
Total Loan Agreement Amounts	\$ 42,375	\$ 28,368	\$ 1,600	\$ 69,772	\$ 66,540	\$ -	\$ 43,058	\$ 635	\$ 46,800	\$ 12,600
<b>RICWFA - Conduit Financing</b>										
Number of Loan Agreements	-	-	1	-	2	1	-	-	1	-
Total Loan Agreement Amounts	\$ -	\$ -	\$ 8,225	\$ -	\$ 9,040	\$ 10,345	\$ -	\$ -	\$ 4,000	\$ -
<b>RICWFA - Operating / Admin Financing</b>										
Number of Loan Agreements	2	2	2	-	-	2	-	-	-	-
Total Loan Agreement Amounts	\$ 3,349	\$ 9,000	\$ 8,000	\$ -	\$ -	\$ 5,998	\$ -	\$ -	\$ -	\$ -
<b>RIWPCRF - State Revolving Fund</b>										
Number of Loan Agreements	-	-	-	-	2	1	1	-	-	-
Total Loan Agreement Amounts	\$ -	\$ -	\$ -	\$ -	\$ 300	\$ 150	\$ 150	\$ -	\$ -	\$ -
<b>MRBRF - State Revolving Fund</b>										
Number of Loan Agreements	4	15	N/A							
Total Loan Agreement Amounts	\$ 6,226	\$ 18,619	N/A							
<b>TOTAL</b>										
Number of Loan Agreements	29	22	12	16	21	14	36	3	22	17
Total Loan Agreement Amounts	\$ 191,820	\$ 56,587	\$ 108,725	\$ 151,742	\$ 132,575	\$ 79,133	\$ 182,514	\$ 935	\$ 104,621	\$ 78,463

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Schedule of Full-Time Employees**  
**By Program and Bank (unaudited)**  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>RIBB Administrative</b>	<b>Clean Water Program</b>	<b>Drinking Water Program</b>	<b>Municipal Road and Bridge Program</b>	<b>Total</b>
2016	6	1	1	1	9
2015	5	1	1	1	8
2014	4	1	1	1	7
2013	4	1	1	0	6
2012	5	1	1	0	7
2011	5	1	1	0	7
2010	4	1	1	0	6
2009	4	1	1	0	6
2008	4	1	1	0	6
2007	4	1	1	0	6

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**State of Rhode Island Demographics (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (thousands of Dollars)</u>	<u>Per Capita Personal Income (dollars)</u>	<u>Total Students, Public Schools</u>	<u>Unemployment Rate</u>
2015	1,056,298	\$ 52,905,465	\$ 50,080	unavailable	6.0%
2014	1,055,173	51,532,166	48,838	140,605	7.7%
2013	1,051,511	49,433,814	47,012	141,124	9.5%
2012	1,050,304	48,184,495	45,877	141,564	10.3%
2011	1,051,302	46,881,303	44,621	142,575	11.2%
2010	1,052,567	45,267,567	42,999	143,674	11.7%
2009	1,053,209	43,470,708	41,257	143,591	10.9%
2008	1,053,502	44,143,873	41,842	146,228	7.7%
2007	1,055,009	43,125,881	40,788	149,925	5.2%
2006	1,060,196	41,257,610	38,809	151,690	5.1%

**Indicator**

**Sources and Notes**

Population	Census. Estimates as of July 1, with the exception of 2010, which is the count.
Personal Income	Bureau of Economic Analysis. Not adjusted for Inflation
Per Capita Personal Income	Bureau of Economic Analysis. Not adjusted for Inflation
Total Students, Public Schools	National Center for Education Statistics. For academic year ending in the year indicated.
Unemployment Rate	RI Department of Labor and Training

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Schedule of Total Net Debt, Rhode Island Resident Population,  
and Debt per Capita (unaudited)**

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Total Debt, Net (in thousands)</u>	<u>Population *</u> <u>(in thousands)</u>	<u>Per Capita Debt, Net (dollars)</u>
2016	\$ 860,923	1,056	\$ 815.27
2015	807,066	1,055	\$ 764.87
2014	837,622	1,052	\$ 796.59
2013	808,407	1,050	\$ 769.69
2012	739,740	1,051	\$ 703.64
2011	696,619	1,053	\$ 661.83
2010	675,761	1,053	\$ 641.62
2009	619,218	1,054	\$ 587.77
2008	648,882	1,055	\$ 615.05
2007	592,708	1,060	\$ 559.06

\* Based on a calendar year ending December 31st.

**RHODE ISLAND INFRASTRUCTURE BANK**  
**(A Component Unit of the State of Rhode Island and Providence Plantations)**

**Employment Sectors - Rhode Island Establishment Employment (unaudited)**

Current Year and Nine Years Ago  
(amounts in thousands)

	2015			2006		
	*Employees	Rank	Percentage	*Employees	Rank	Percentage
Educational and Health Services	105	1	22%	97	1	20%
Trade, Transportation & Utilities	76	2	16%	80	2	16%
Professional and Business Services	63	3	12%	57	4	12%
Government	60	4	13%	65	3	13%
Leisure and Hospitality	56	5	12%	50	6	10%
Manufacturing	41	6	8%	53	5	11%
Financial Activities (including Real Estate)	33	7	7%	35	7	7%
Other Services	23	8	5%	23	8	5%
Construction	17	9	3%	23	9	5%
Information	9	10	2%	11	10	2%
Total	482		100%	494		100%

\*Annual Average

Source: Rhode Island Department of Labor and Training

**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 Infrastructure Bank  
Providence, Rhode Island

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Rhode Island Infrastructure Bank (the “Bank”), a component unit of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Bank’s basic financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Bank’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Bank’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank’s internal control.

*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 a 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. A significant deficiency is a deficiency, or a 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.*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Bank’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Boston, Massachusetts  
September 30, 2016