

**RHODE ISLAND
COMMERCE
CORPORATION
(A COMPONENT UNIT OF
THE STATE OF RHODE
ISLAND)**

**FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
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Independent Auditors' Report

Board of Directors
Rhode Island Commerce Corporation
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Commerce Corporation, a component unit of the State of Rhode Island, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Rhode Island Commerce Corporation's financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider internal control relevant to the entity'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 Commerce Corporation as of June 30, 2018 and 2017, and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 for the financial statements, during the fiscal year ended June 30, 2018, the Corporation adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The net position of the Corporation has been restated to recognize the net OPEB liability required in implementing GASB No. 75. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Corporation is dependent upon annual appropriations by the General Assembly of the State of Rhode Island and advances from the State to fund its operating expenses and debt service on its conduit debt obligations. For the years ended June 30, 2018 and 2017, appropriations by the General Assembly of the State of Rhode Island received by the Corporation to fund its expenses comprised approximately 78% and 50% of the Corporation's total operating and nonoperating revenues, respectively.

As discussed in Note 11 to the financial statements, the Corporation has a net deficit as of June 30, 2018, relating to payments received by the State of Rhode Island to repay bondholders and lenders relating to the Job Creation Guaranty Program. Pursuant to Rhode Island General Laws 42-64-18(5), these amounts shall constitute and be accounted for as advances by the State of Rhode Island to the Corporation. Through June 30, 2018, the Corporation has received \$23,634,113, which is recorded in the accompanying financial statements as a liability of the Corporation to the State of Rhode Island.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the pension and OPEB schedules on pages 45 through 50 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rhode Island Commerce Corporation's basic financial statements. The accompanying supplementary information on pages 51 through 65 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018 on our consideration of the Rhode Island Commerce Corporation'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rhode Island Commerce Corporation's 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 Commerce Corporation's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
November 5, 2018

**RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

As management of the Rhode Island Commerce Corporation, a component unit of the State of Rhode Island (the State), we offer readers of Rhode Island Commerce Corporation's financial statements this narrative overview and analysis of the financial activities of Rhode Island Commerce Corporation for the years ended June 30, 2018 and 2017. Rhode Island Commerce Corporation's financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Introduction

Rhode Island Commerce Corporation was authorized, created, and established in 1974 by an Act (the Act) of the General Assembly of the State for the purpose of acquiring and developing real and personal property to promote economic development in the state. Rhode Island Commerce Corporation, a governmental agency and public instrumentality of the State, has a distinct legal existence from the State and has the power to issue tax-exempt industrial development bonds and revenue bonds to accomplish its corporate purpose.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to Rhode Island Commerce Corporation's financial statements.

Rhode Island Commerce Corporation engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for services. As a result, Rhode Island Commerce Corporation's basic financial statements include the statement of net position; the statement of revenue, expenses, and changes in net position; the statement of cash flows; and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of Rhode Island Commerce Corporation's finances, in a manner similar to a private-sector business.

The statement of net position presents detail on Rhode Island Commerce Corporation's assets, deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Changes in Rhode Island Commerce Corporation's net position serve as a useful indicator of whether Rhode Island Commerce Corporation's net position is improving or deteriorating. Readers should also consider other non-financial factors when evaluating Rhode Island Commerce Corporation's net position. The statement of revenues, expenses, and changes in net position presents information on how Rhode Island Commerce Corporation's net position changed during the year.

All assets, liabilities, and changes in net position are reported as soon as the underlying event affecting the asset or liability or deferred outflow or inflow, and resulting change in net position occurs, regardless of the timing of when the cash is received or paid (accrual basis of accounting for governmental entities). Consequently, certain revenues and expenses reported in the statement of revenues, expenses and changes in net position will result in cash flows in future periods.

2018 Financial Highlights

Statements of Net Position

Current assets increased approximately \$6,744,000 over prior year due to appropriations funding restricted use economic incentive programs including Rebuild RI Tax Credit at \$12,500,000 increasing balances in restricted cash.

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Deferred outflows of resource increased by approximately \$94,000 over prior year and relates specifically to the Defined Benefit Pension plan. This is a closed plan for employees hired prior to January 1, 2006. The increase in deferred outflows represents Rhode Island Commerce Corporation's proportion of the plans expected expense recognition over the expected remaining service lives of all employees in the plan. This is the actuarially determined future cost funded with existing plan assets.

Total liabilities decreased approximately \$9,960,000 over the prior year due to a combination of factors including a decrease in unearned revenue of approximately \$4,200,000, a reduction in outstanding balances on bonds and leases payable of nearly \$3,000,000 and overall reduction in accounts payable and accrued expenses of approximately \$2,400,000.

Net position increased by approximately \$14,120,000 over the prior year due to the recognition of economic incentives as revenue in current year.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues decreased approximately \$26,273,000 due to the prior year impact of the settlement for 38 Studios LLC.

Operating expenses decreased approximately \$22,938,000 primarily due to a decrease in the conduit debt payments related to the 38 Studios LLC project moral obligations.

Net operating loss increased approximately \$3,335,000 due to the increase in operating expenses associated with tourism advertising campaign.

Net nonoperating revenues decreased approximately \$22,333,000 primarily due reduced appropriation for economic incentives compared to the prior year. Note, GASB 33 states that "revenues should be recognized when all applicable eligibility requirements are met *and* the resources are available" and thereby annually there is a full recognition of economic incentives received in current year

Changes in net position decreased from prior year by approximately \$25,772,000 primarily due to the significant change in appropriations supporting economic incentive programs as compared to the previous year.

2017 Financial Highlights

Statements of Net Position

Current assets increased approximately \$39,855,000 over prior year due to appropriations funding restricted use economic incentive programs including Rebuild RI Tax Credit at \$25,000,000.

Deferred outflows of resources increased by approximately \$181,000 over prior year and relates specifically to the Defined Benefit Pension plan. This is a closed plan for employees hired prior to January 1, 2006. The increase in deferred outflows represents Rhode Island Commerce Corporation's proportion of the plans expected expense recognition over the expected remaining service lives of all employees in the plan. This is the actuarially determined future cost funded with existing plan assets.

Total liabilities decreased approximately \$2,247,000 over the prior year primarily resulting from settlement proceeds eliminating the need for state funding of conduit debt for 38 Studios LLC.

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Net position increased by approximately \$39,891,000 over the prior year due to the recognition of economic incentives as revenue in current year.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues increased approximately \$17,307,000 due to economic incentive programs that were one year appropriations in fiscal year 2016 such as the Small Business Assistance Program and Anchor Institution offset by a settlement for 38 Studios LLC.

Operating expenses increased approximately \$6,082,000 primarily due to a decrease in the conduit debt payments related to the 38 Studios LLC project moral obligations offset by a settlement for 38 Studios LLC.

Net operating loss decreased approximately \$11,225,000 due to the decrease in operating expenses associated with conduit debt payments, offset by increased payroll and expenditures on economic incentive programs.

Net nonoperating revenues increased approximately \$20,079,000 primarily due to full recognition of economic incentives received in current year as required by GASB 33, which states that "revenues should be recognized when all applicable eligibility requirements are met *and* the resources are available". In addition to the recognition of revenue associated with the economic incentives, the increase is partially attributed to hotel tax proceeds to support tourism and business attraction branding and marketing.

Changes in net position improved over prior year by approximately \$31,292,000 primarily due to an influx of cash received for economic incentive programs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Condensed Comparative Information

The following table reflects a summary of changes in certain balances in the statement of net position, and revenues, expenses and changes in net position (in thousands):

Statements of Net Position					
	June 30,			Increase (decrease)	
	2018	2017	2016	2018 v 2017	2017 v 2016
Current assets	\$ 93,014	\$ 86,270	\$ 46,536	\$ 6,744	\$ 39,734
Noncurrent assets	19,424	21,533	24,290	(2,109)	(2,757)
Total assets	112,438	107,803	70,826	4,635	36,977
Deferred outflows of resources	804	710	512	94	198
Current liabilities	6,824	10,670	7,899	(3,846)	2,771
Noncurrent liabilities	51,444	57,558	62,628	(6,114)	(5,070)
Total liabilities	58,268	68,228	70,527	(9,960)	(2,299)
Deferred inflows of resources	595	26	380	569	(354)
Net (deficit) position	<u>\$ 54,379</u>	<u>\$ 40,259</u>	<u>\$ 431</u>	<u>\$ 14,120</u>	<u>\$ 39,828</u>

Statements of Revenues, Expenses, and Changes in Net Position					
	Year Ended June 30,			Increase (decrease)	
	2018	2017	2016	2018 v 2017	2017 v 2016
Operating revenues	\$ 5,391	\$ 31,664	\$ 14,357	\$ (26,273)	\$ 17,307
Operating expenses	20,497	43,435	37,353	(22,938)	6,082
Operating loss	(15,106)	(11,771)	(22,996)	(3,335)	11,225
Nonoperating revenues, net	28,811	51,144	31,065	(22,333)	20,079
Transfers	415	519	531	(104)	(12)
Change in net position	<u>\$ 14,120</u>	<u>\$ 39,892</u>	<u>\$ 8,600</u>	<u>\$ (25,772)</u>	<u>\$ 31,292</u>

Requests for Information

This financial report is designed as a general overview of Rhode Island Commerce Corporation's for external and internal stakeholders. Questions concerning any of the information provided in this report or public requests for information should be addressed to the Executive Director, Rhode Island Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, Rhode Island 02908.

RHODE ISLAND COMMERCE CORPORATION
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STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018		2017	
	Primary Reporting Entity	Component Unit	Primary Reporting Entity	Component Unit
	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation
			RESTATED	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 5,380,007	\$	\$ 8,862,754	\$ 1,276,723
Accounts receivable	414,999		721,668	
Notes and loans receivable, less allowance for loan losses		1,092,510		1,360,774
Interest receivable		23,770		23,380
Interfund receivable	66,624		34,018	
Due from State of Rhode Island	3,222,056		3,021,363	
Due from other State component units	16,034		33,414	
Deposits and prepaid expenses	470,061	5,733	228,560	5,733
Restricted:				
Cash and cash equivalents	79,489,582		69,637,248	
Investments	947,427		943,802	
Grants and other receivables	16,411		21,888	
Net investment in direct financing leases	2,990,807		2,765,676	
Total current assets	<u>93,014,008</u>	<u>1,122,013</u>	<u>86,270,391</u>	<u>2,666,610</u>
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	4,813,868	5,782,965	4,757,083	5,101,077
Notes receivable, less current portion	227,476		272,197	
Net investment in direct financing leases, less current portion	13,242,768		16,233,574	
Investment in joint venture		885,078		906,283
Notes and loans receivable, less allowance for loan losses		4,379,296		4,967,346
Capital assets not being depreciated	128,762		128,762	
Capital assets being depreciated, net	1,011,333		141,428	
Total noncurrent assets	<u>19,424,207</u>	<u>11,047,339</u>	<u>21,533,044</u>	<u>15,942,052</u>
Total assets	<u>112,438,215</u>	<u>12,169,352</u>	<u>107,803,435</u>	<u>18,608,662</u>
Deferred Outflows of Resources:				
Rhode Island Commerce Corporation pension plan	720,635		659,620	
State OPEB plan	9,789		5,574	
State of Rhode Island pension plan	73,376		44,744	
Total deferred outflows of resources	<u>803,800</u>	<u>-</u>	<u>709,938</u>	<u>-</u>

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RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

	2018		2017	
	Primary Reporting Entity	Component Unit	Primary Reporting Entity	Component Unit
	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation
			RESTATED	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 713,570	\$ 6,165	\$ 2,247,875	\$ 6,288
Accrued expenses and other	1,442,851	3,355	1,936,836	
Due to State agencies	223,786		700,000	
Interfund payable		66,624		34,018
Current portion of long - term debt, restricted	2,990,807		2,765,676	
Unearned revenue, restricted	1,453,052	1,043,330	3,019,685	2,382,417
Total current liabilities	6,824,066	1,119,474	10,670,072	2,422,723
Noncurrent liabilities:				
Liabilities payable from restricted cash and cash equivalents	3,176,323		3,116,817	
Net OPEB liability	67,763		68,584	
Net pension liability	83,248		623,724	
State net pension liability	305,320		293,616	
Bonds and leases payable, less current portion, restricted	15,827,739		18,818,546	
Advances from State for conduit debt obligations	23,634,113		23,634,113	
Unearned revenue, restricted	8,349,331		11,002,237	
Total noncurrent liabilities	51,443,837	-	57,557,637	-
Total liabilities	58,267,903	1,119,474	68,227,709	2,422,723
Deferred Inflows of Resources:				
Rhode Island Commerce Corporation pension plan	550,825			
State of Rhode Island OPEB plan	4,363			
State of Rhode Island pension plan	39,911		26,168	
Total deferred inflows of resources	595,099	-	26,168	-
Commitments and contingencies (Note 10)				
Net (Deficit) Position:				
Investment in capital assets	1,133,595		270,190	
Restricted for grants and other programs	71,295,256	4,739,635	54,713,347	2,718,660
Unrestricted (deficit)	(18,049,838)	6,310,243	(14,724,041)	8,499,933
Total Net Position, as Restated	\$ 54,379,013	\$ 11,049,878	\$ 40,259,496	\$ 11,218,593

The accompanying notes are an integral part of the financial statements

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018		2017	
	Primary Reporting Entity	Component Unit	Primary Reporting Entity	Component Unit
	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation
			RESTATED	
Operating Revenues:				
Charges for services:				
Rental fees	\$ 15,376	\$	\$ 15,236	\$
Interest on loans	3,421	361,871	4,356	506,638
Other income, principally Renewable Energy Fund	5,370,652		5,397,861	
Legal settlement	2,020		26,246,448	
Total operating revenues	<u>5,391,469</u>	<u>361,871</u>	<u>31,663,901</u>	<u>506,638</u>
Operating Expenses:				
Personnel services	5,803,084	126,487	5,855,214	144,549
Contractual services	4,879,427	28,233	8,174,687	45,753
Grants	4,705,992		4,785,428	
Other expenses	5,045,564	130,299	3,138,770	139,532
Expenses related to conduit debt obligations			21,404,141	
Provision for loan losses and uncollectibles, net of recoveries		111,608	16,667	317,301
Depreciation and amortization	63,149		60,170	
Total operating expenses	<u>20,497,216</u>	<u>396,627</u>	<u>43,435,077</u>	<u>647,135</u>
Operating Loss	<u>(15,105,747)</u>	<u>(34,756)</u>	<u>(11,771,176)</u>	<u>(140,497)</u>
Nonoperating Revenues (Expenses):				
Appropriations from State	38,039,934		59,050,908	
Investment and other revenue	8,919,297		7,966,265	
Interest expense	(1,619,895)		(1,828,448)	
Grant income	1,488,569	1,415,696	2,821,593	1,743,926
Grant expenses	(1,498,415)	(1,528,450)	(2,705,514)	(1,891,704)
Public investment payments and job credits	(6,674,276)		(6,867,276)	
Incentive Program expenses	(5,610,832)		(4,186,936)	
Other	(4,233,658)	(21,205)	(3,106,828)	(131,871)
Net nonoperating revenues (expenses)	<u>28,810,724</u>	<u>(133,959)</u>	<u>51,143,764</u>	<u>(279,649)</u>
Income (Loss) Before Transfer	13,704,977	(168,715)	39,372,588	(420,146)
Transfer from Other State Component Units	414,540		518,949	
Change in Net Position	14,119,517	(168,715)	39,891,537	(420,146)
Total Net Position, Beginning of Year	<u>40,259,496</u>	<u>11,218,593</u>	<u>367,959</u>	<u>11,638,739</u>
Total Net Position, End of Year, as Restated	<u>\$ 54,379,013</u>	<u>\$ 11,049,878</u>	<u>\$ 40,259,496</u>	<u>\$ 11,218,593</u>

The accompanying notes are an integral part of the financial statements

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018		2017	
	Primary Reporting Entity	Component Unit	Primary Reporting Entity	Component Unit
	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation	Rhode Island Commerce Corporation	Small Business Loan Fund Corporation
Cash Flows from Operating Activities:				
Receipts from (payments to) customers/borrowers	\$ 1,523,320	\$ 5,485,483	\$ 27,992,893	\$ 1,038,096
Payments to suppliers	(16,794,240)	(1,494,387)	(34,392,169)	600,570
Payments to employees	(5,979,368)	(93,881)	(5,722,222)	(292,909)
Net cash provided by (used in) operating activities	(21,250,288)	3,897,215	(12,121,498)	1,345,757
Cash Flows from Noncapital Financing Activities:				
State of Rhode Island appropriations received	37,363,027		58,092,254	
Grants received	1,494,046	1,415,696	3,322,921	1,743,926
Grant expenditures	(5,447,436)	(1,528,450)	(6,426,168)	(1,891,704)
Public investment payments and job credits	(6,674,276)		(6,867,276)	
Economic incentive obligations	(5,610,832)		(4,186,936)	
Transfers	414,540		518,949	
Net cash provided by (used in) noncapital financing activities	21,539,069	(112,754)	44,453,744	(147,778)
Cash Flows from Capital and Related Financing Activities:				
Interest paid, long-term obligations	(1,619,895)		(1,828,448)	
Acquisition of capital assets	(933,054)		(98,641)	
Receipts under direct financing leases	2,765,675		2,560,075	
Payments under direct financing leases	(2,990,807)		(2,765,716)	
Net cash used in capital and related financing activities	(2,778,081)	-	(2,132,730)	-
Cash Flows from Investing Activities:				
Interest income	8,915,672		7,969,182	
Net Increase (Decrease) in Cash and Cash Equivalents	6,426,372	3,784,461	38,168,698	1,197,979
Cash and Cash Equivalents, Beginning of Year	83,257,085	6,377,800	45,088,387	5,179,821
Cash and Cash Equivalents, End of Year	\$ 89,683,457	\$ 10,162,261	\$ 83,257,085	\$ 6,377,800

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STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018		2017	
	Primary Reporting Entity	Component Unit	Primary Reporting Entity	Component Unit
		Small		Small
	Rhode Island Commerce Corporation	Business Loan Fund Corporation	Rhode Island Commerce Corporation	Business Loan Fund Corporation
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:				
Operating loss	\$ (15,105,747)	\$ (34,756)	\$ (11,771,176)	\$ (140,497)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	63,149		60,170	
Pension expense	212,649		186,958	
Provision for loan losses, net		111,608		317,301
Changes in:				
Notes and accounts receivable	318,784	5,123,612	(316,430)	531,457
Deposits and prepaid expenses	(241,501)		26,659	1,259
Due to/from other State component units	17,380	32,606	(7,250)	(148,360)
Interfund payable				
Accounts payable, accrued expenses and unearned revenue	(6,247,829)	(1,335,855)	(211,887)	784,597
Due to state agencies				
Advances from State for conduit debt obligations - 38 Studios (Note 11)				
Deferred outflows of resources for pensions	(267,173)		(88,542)	
Net Cash Provided by (Used in) Operating Activities	<u>\$ (21,250,288)</u>	<u>\$ 3,897,215</u>	<u>\$ (12,121,498)</u>	<u>\$ 1,345,757</u>

The accompanying notes are an integral part of the financial statements

**RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
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1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Rhode Island Commerce Corporation (RI Commerce Corporation) was authorized, created and established in 1974 by an Act (the Act) of the General Assembly of the State of Rhode Island (the State) for the purpose of acquiring and developing real and personal property to promote economic development in the State. RI Commerce Corporation, a governmental agency and public instrumentality of the State, has a distinct legal existence from the State and has the power to issue tax-exempt industrial development bonds and revenue bonds to accomplish its corporate purpose. Certain bonds issued under the provisions of the Act are not a liability of RI Commerce Corporation and, accordingly, are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

RI Commerce Corporation is a component unit of the State for financial reporting purposes. As such, the financial statements of RI Commerce Corporation are included in the State's comprehensive annual financial report.

RI Commerce Corporation and its component unit are exempt from federal and state income taxes.

Reporting Entity

The accompanying financial statements present RI Commerce Corporation (referred to herein as the primary reporting entity) and its component unit, an entity for which RI Commerce Corporation has control over and for which RI Commerce Corporation has financial accountability. RI Commerce Corporation and its component unit are collectively referred to herein as the Corporation.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Corporation applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement Nos. 39 and 61. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Through the application of GASB criteria, the Small Business Loan Fund Corporation (SBLF) has been presented as a component unit of the RI Commerce Corporation.

In August 2008, pursuant to an act of the General Assembly of the State, the management and fund balance of the Renewable Energy Fund (REF) was transferred from the State's Office of Energy Resources to RI Commerce Corporation. While RI Commerce Corporation is responsible for managing REF, REF does not have separate corporate powers that would distinguish it as being legally separate from RI Commerce Corporation; therefore, its activities have been included in the primary reporting entity.

Discretely Presented Component Unit

SBLF, a discretely presented component unit, is reported in a separate column in the accompanying financial statements to emphasize that it is legally separate from RI Commerce Corporation.

SBLF was created and incorporated on January 21, 1986, under Rhode Island law, as a subsidiary of RI Commerce Corporation, for the purpose of granting secured and unsecured loans to small businesses located throughout Rhode Island. The SBLF Board serves at the pleasure of the RI Commerce Corporation Board.

SBLF does not prepare separate financial statements.

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Financial Statement Presentation, Measurement Focus and Basis of Accounting

The Corporation engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external users.

The Corporation uses the economic resources management focus and accrual basis of accounting.

The Corporation distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. Operating expenses include the cost of and losses resulting from services provided, administrative expense, and depreciation and amortization expense. All other revenues and expenses are reported as nonoperating revenues and expenses.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. A significant item subject to such estimates and assumptions is the allowance for loan losses. Actual results could differ from those estimates.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent the consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period. See Note 8.

Cash and Cash Equivalents, Restricted

Unexpended grant funds, payments received under direct financing leases, loan loss reserves and amounts restricted by federal and state requirements are reported as restricted cash and cash equivalents in the accompanying statement of net position and are classified as either current or noncurrent based on the reporting period in which the underlying monies are expected to be used.

Cash and Cash Equivalents

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

Under the *Rhode Island Collateralization of Public Deposits Act* (the Act), depository institutions holding deposits of the State, its agencies, or governmental subdivisions of the State, shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. At June 30, 2018 and 2017, the Corporation had deposits, excluding money markets, of \$926,877 and \$15,095,887, respectively, which were uninsured and uncollateralized. These deposits were not required to be collateralized based on the criteria set forth in the Act.

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Accounts Receivable

Accounts receivable are reported at gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The Corporation does not require collateral or other forms of security from its customers.

Investments

Money market investments having a maturity of one year or less at the time of purchase are reported on the statement of net position at their amortized cost. All other investments are reported at fair value.

SBLF's investment in a joint venture (see Note 3) is accounted for using the equity method, under which the investment in the joint venture is increased (decreased) by SBLF's share of the venture's undistributed earnings (losses) and decreased by distributions received from the joint venture.

Notes and Loans Receivable

Notes and loans receivable are stated at the principal amount outstanding less any charge-offs and an allowance for loan losses. Interest income on notes and loans receivable is recognized over the term of the notes and loans and is calculated using the simple-interest method on principal amounts outstanding.

Accrual of interest income on notes and loans receivable is discontinued when management has determined that the borrower will be unable to meet contractual obligations. When a note or loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current-period income. Interest received on nonaccrual notes and loans is either applied against principal or reported as income according to management's judgment as to the collectability of principal. Nonaccrual notes and loans may be returned to accrual status when principal and interest payments are not delinquent and the risk characteristics of the note or loan have improved to the extent that concern no longer exists as to the collectability of principal.

The Corporation measures impairment using a discounted cash-flow method, or the loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. However, impairment is based on the fair value of the collateral if it is determined that foreclosure is probable.

Allowance for Loan Losses

The allowance for loan losses is established through a provision charged to operations based on management's assessment of many factors, including the risk characteristics of the notes and loans, current economic conditions that may affect the borrowers' ability to pay, and trends in delinquencies and charge-offs. Realized losses, net of recoveries, are charged directly to the allowance. While management uses information available in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions or other factors differ substantially from the assumptions used in making the evaluation.

Capital Assets and Depreciation

Capital assets are stated at cost except for capital assets conveyed to the Corporation by the State or the United States of America, which are stated at fair value as of the date of contribution. Expenditures in excess of \$2,500 which substantially increase the useful lives of existing assets are capitalized; routine maintenance and repairs are expensed as incurred. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets.

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The Corporation evaluates its capital assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected undiscounted cash flows from the use and disposition of the asset is less than the carrying amount. Generally, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the estimated fair value of the asset. The Corporation did not record an impairment loss during the years ended June 30, 2018 and 2017.

Unearned Revenue

For the Corporation, unearned revenue pertains principally to payments received by the Corporation in advance of revenues earned under terms of applicable energy programs. Unearned revenue is recognized as the Renewable Energy Fund (REF) incurs expenses related to its operations or makes grants to other organizations.

For SBLF, unearned revenue pertains principally to the State Small Business Credit Initiative program (see Note 3). Revenue is recognized as SBLF incurs expenses related to this program.

Direct Financing Leases

Land and buildings leased to unrelated parties under capital leases are recorded as net investment in direct financing leases. Interest income under capital leases consists of the excess of lease payments due under the terms of the leases over the cost of land and buildings and is recognized over the lease terms using the level yield method.

Grants

Revenues from grants are recognized as soon as all eligibility requirements imposed by the provider have been met.

From time to time, REF will issue forgivable loans or recoverable grants to entities for the purposes of furthering solar technology initiatives. In the year in which the funds are expended, such amounts are recorded as expense, and it is not until the recipient achieves the benchmarks that repayment is triggered, as set forth in the agreements between REF and the recipient, and such amounts are recorded as either loan or recoverable grant receivables. As of June 30, 2018, amounts provided by REF to recipients under forgivable loan and recoverable grant agreements totaled \$218,568. As of June 30, 2018, no corresponding amounts have been recorded as receivables, or repaid or recovered.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System plan (ERS) and the Rhode Island Commerce Corporation Pension Plan and Trust (the Plan) and the additions to / deductions from ERS' and the Plans' fiduciary net position have been determined on the same basis as they are reported by ERS and the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Other Postemployment Benefits Other than Pensions (OPEB) Liability

The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year and no later than the end of the current fiscal year, consistently applied from period to period. The measurement date for the reported liability was June 30, 2017.

Net Position

The Corporation's net position has been segregated into the following three components:

Investment in Capital Assets

Represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to these assets, if any.

Restricted

Those that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law; reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted (Deficit)

A residual category for the balance of net position.

Due to expenses incurred related to conduit debt obligations, the Corporation has a net deficit position for its unrestricted net position as of June 30, 2018. During the year ended June 30, 2018, the Corporation did not receive advances from the State to fund expenses related to conduit debt obligations. During the year ended June 30, 2018, the Corporation received \$7,224,514 in appropriations from the General Assembly of the State of Rhode Island to fund operating expenses. These appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. The Corporation is dependent upon the State's annual appropriations to fund its operating expenses.

Recent Accounting Pronouncements

Effective for the fiscal year ended June 30, 2018, the Corporation adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The financial statements follow GASB 75 standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses and expenditures related to other postemployment benefits (OPEB) administered. These statements also utilize GASB 75 methods and assumptions to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note 13, Employee Benefits, includes GASB 75 disclosures and required supplementary information. In addition, a restatement of beginning net position in fiscal 2018 has been made in accordance with GASB 75.

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2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, including restricted amounts, consist of the following at June 30, 2018 and 2017:

	2018		2017	
	Rhode Island Commerce Corporation	SBLF	Rhode Island Commerce Corporation	SBLF
Deposits held in Bank of America	\$ 414,454	\$	\$ 9,823,863	\$ 1,411,244
Deposits held in Santander	79,567,552	5,782,965	64,146,626	4,966,556
Deposits held in Bank RI	1,012,423		697,751	
Short-term investments, cash equivalents	8,689,028		8,588,845	
	\$ 89,683,457	\$ 5,782,965	\$ 83,257,085	\$ 6,377,800

At June 30, 2018 and 2017, the Corporation had \$80,680,472 and \$83,709,467 (bank balance), respectively, on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC).

The carrying amounts of cash equivalents approximate fair value and consist of the following:

	2018	2017
Money market mutual funds, Goldman Sachs (FGTX)	\$ 3,875,160	\$ 3,831,762
Money market mutual funds, Fidelity (FIGXX)	4,813,868	4,757,083
	\$ 8,689,028	\$ 8,588,845

The bank balance of the Corporation's cash and cash equivalents, excluding money market accounts, is as follows:

	2018		2017	
	Rhode Island Commerce Corporation	SBLF	Rhode Island Commerce Corporation	SBLF
Bank balance	\$ 81,180,472	\$ 5,782,965	\$ 74,749,507	\$ 6,378,198
Bank balance insured by FDIC	750,000	250,000	750,000	500,000
Collateralized, Santander Bank, N.A.	79,753,595	5,782,965	63,896,626	4,716,954
Uninsured and Uncollateralized	\$ 926,877	\$ -	\$ 10,102,881	\$ 1,161,244

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The Corporation's money market mutual funds invested in Goldman Sachs Financial Square Funds - Government (FGTXX) are held at Bank of America as of June 30, 2018. The fund is designed to maintain a stable share price of \$1.00 and maintains a dollar weighted average maturity of 35 days as of June 30, 2018. At June 30, 2018, the funds were invested as follows: 55% in a government agency and treasury repurchase agreements, and 45% in government agency and treasury debt. As of June 30, 2018, the fund was rated Aaa by Moody's Investors Services (Moody's) and AAAm by Standard & Poor's Rating Service (S&P).

The Corporation's money market mutual fund accounts invested in Fidelity Institutional Money Market Government Portfolio - Class I (FIGXX) are held at U.S. Bank as of June 30, 2018. The fund is designed to maintain a stable share price of \$1.00 and maintains a dollar weighted average maturity of 25 days as of June 30, 2018. At June 30, 2018, approximately 80% of the securities in which the funds are invested are backed by the full faith and credit of the United States Government; the remainder is neither insured nor guaranteed by the United States Government. As of June 30, 2018, the fund was rated AAA-mf by Moody's and AAAm by S&P.

Interest Rate Risk

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

Although it has no established policy, the Corporation manages its exposure to declines in fair values by limiting the term of liquid investments to less than 60 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment and is measured by the assignment of a rating by a nationally recognized statistical rating organization to debt securities. Although it has no established policy, the Corporation manages its exposure to credit risk by monitoring the ratings assigned to such securities, as applicable.

Concentration of Credit Risk

Although it has no established policy, the Corporation continually evaluates alternative investment options to diversify its portfolio and maximize interest income.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Corporation's deposits and investments may not be returned. The Corporation does not have a deposit or investment policy for custodial credit risk. The Corporation manages the custody of its cash and cash equivalents through analysis and review of the custodians' or counterparties' credit worthiness.

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3. INVESTMENTS

At June 30, 2018 and 2017, the Corporation's investments consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Rhode Island Commerce Corporation</u>	<u>SBLF</u>	<u>Rhode Island Commerce Corporation</u>	<u>SBLF</u>
United States government obligations	\$ 947,427	\$	\$ 943,802	\$
Investment in joint venture	<u> </u>	<u>885,078</u>	<u> </u>	<u>906,283</u>
	<u>\$ 947,427</u>	<u>\$ 885,078</u>	<u>\$ 943,802</u>	<u>\$ 906,283</u>

As of June 30, 2018, RI Commerce Corporation funds were invested in United States government obligations that accrue interest at 1.625% and have a maturity date of April 30, 2019. The obligations were rated Aaa by Moody's.

The State Small Business Credit Initiative (SSBCI) received by the State is being administered through SBLF. During fiscal year 2012, SBLF and Beta Spring Managers 100, LLC (Beta Spring Managers 100) formed Startup Investments, LLC (Startup), a joint venture. Under the terms of the Startup Operating Agreement, SBLF's initial contribution was \$2,000,000. In exchange for the \$2,000,000 investment, SBLF received half of the 100,000 outstanding shares of common stock in Startup.

Also during fiscal year 2012, Startup invested in Beta Spring, an entity that helps develop entrepreneurs through a "boot camp" process to allow their "graduates" to be placed before investors to help bootstrap their idea into a future viable business. Beta Spring acquired a 6% interest in the common stock of the entrepreneurs' companies via Beta Spring Managers 100. Beta Spring does not prepare separate financial statements.

SBLF has accounted for its investment in Startup as an investment in a joint venture due to SBLF's ongoing financial interest in Beta Spring. Since the date of its initial contribution, SBLF's share of net loss incurred by the investment in Startup is \$1,114,922, including \$21,205 and \$131,871 for the years ended June 30, 2018 and 2017, which is classified as other nonoperating expense on the statements of revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017. As an equity method investor in a joint venture, SBLF is not permitted nor required to test Startup's underlying assets for impairment pursuant to relevant provisions of the applicable accounting guidance. If Startup were to recognize an impairment loss on its books, SBLF would be required to recognize its proportional share of that impairment loss.

On September 20, 2017, the Office of Inspector General for the United States Department of Treasury issued a report (the Report) of its audit findings in relation to the administration of the SSBCI Beta Spring program undertaken by the Small Business Loan Fund Corporation relating to program administration during the 2011 - 2014 time-frame. In response to the Report, management at the Department of Treasury indicated that it would not disburse the final allocation of funding to the Small Business Loan Fund Corporation in the amount of \$2,000,000. The Report can be found at <https://www.treasury.gov/about/organizational-structure/ig/Audit%20Reports%20and%20Testimonies/OIG-17-057.pdf>.

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The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The Corporation has the following recurring fair value measurements as of June 30, 2018 and 2017.

U.S. government obligations classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments in joint ventures classified in Level 3 are valued using the equity method.

	<u>June 30,</u> <u>2018</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
U.S. government obligations	\$ 947,427	\$ 947,427	\$	\$
Investment in joint venture	<u>885,078</u>	<u> </u>	<u> </u>	<u>885,078</u>
Total Investments by Fair Value Level	<u>\$ 1,832,505</u>	<u>\$ 947,427</u>	<u>\$ -</u>	<u>\$ 885,078</u>

	<u>June 30,</u> <u>2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
U.S. government obligations	\$ 943,802	\$ 943,802	\$	\$
Investment in joint venture	<u>906,283</u>	<u> </u>	<u> </u>	<u>906,283</u>
Total Investments by Fair Value Level	<u>\$ 1,850,085</u>	<u>\$ 943,802</u>	<u>\$ -</u>	<u>\$ 906,283</u>

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4. LOANS AND NOTES RECEIVABLE

Provision for Loan Losses

An analysis of SBLF’s allowance for loan losses for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,012,118	\$ 626,216
Provision for loan losses	179,227	385,902
Loans charged off	<u>(915,611)</u>	<u> </u>
Balance, End of Year	<u>\$ 275,734</u>	<u>\$ 1,012,118</u>

Commitments

SBLF had \$500,000 in commitments to originate loans at June 30, 2018 and 2017.

SBLF’s Board of Directors approved an additional \$1,944,500 and \$1,971,380 of loans in fiscal year 2018 and 2017, respectively

REF had loan and grant commitments of \$9,634,618 and \$10,814,121 at June 30, 2018 and 2017, respectively.

Notes Receivable

RI Commerce Corporation issues notes and grants to private-sector entities and others located in Rhode Island. The ability of RI Commerce Corporation’s debtors to honor their contracts is primarily dependent upon various factors, including among others, the financial success of the borrower, success of the project financed and general economic conditions in Rhode Island.

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5. CAPITAL ASSETS

	<u>Depreciable Life</u>	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital assets not being depreciated:					
Land		\$ 128,762	\$	\$	\$ 128,762
Capital assets being depreciated:					
Leasehold improvements	1		607,326		607,326
Equipment	5	230,865	325,728		556,593
Total capital assets being depreciated		230,865	933,054	-	1,163,919
Less accumulated depreciation for:					
Equipment		(89,437)	(63,149)		(152,586)
Total accumulated depreciation		(89,437)	(63,149)	-	(152,586)
Total capital assets being depreciated, net		141,428	869,905	-	1,011,333
Capital Assets, Net		\$ 270,190	\$ 869,905	\$ -	\$ 1,140,095

	<u>Depreciable Life</u>	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:					
Land		\$ 128,762	\$	\$	\$ 128,762
Capital assets being depreciated:					
Leasehold improvements	1.42	49,953		(49,953)	-
Equipment	5	132,224	98,641		230,865
Automobiles	5	22,038		(22,038)	-
Total capital assets being depreciated		204,215	98,641	(71,991)	230,865
Less accumulated depreciation for:					
Leasehold improvements		(29,384)	(20,569)	49,953	-
Equipment		(51,305)	(38,132)		(89,437)
Automobiles		(20,569)	(1,469)	22,038	-
Total accumulated depreciation		(101,258)	(60,170)	71,991	(89,437)
Total capital assets being depreciated, net		102,957	38,471	-	141,428
Capital Assets, Net		\$ 231,719	\$ 38,471	\$ -	\$ 270,190

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6. LONG-TERM DEBT

Bonds Payable and Net Investment in Direct Financing Leases

During 1996, RI Commerce Corporation issued bonds totaling \$25,000,000 of 1996 Series bonds to finance the acquisition of land and to make land improvements and construct a building at Island Woods Industrial Park (the FMR Rhode Island, Inc. Project). The 1996 Series bonds bear interest at 8.28%, are payable in semi-annual installments of approximately \$1,244,000, and mature May 1, 2021. During 2002, RI Commerce Corporation issued \$10,000,000 of 2002 Series bonds to the FMR Rhode Island, Inc. Project. The 2002 Series bonds bear interest at 7.25%, interest only until 2008, and mature in 2027. Amounts outstanding under the bonds are secured by the direct financing lease discussed below.

During November 1997, RI Commerce Corporation issued \$11,000,000 of 1997 Series bonds to finance the acquisition of land and to make improvements and renovations to a building and parking lot (the Fleet National Bank Project). The 1997 Series bonds bear interest at 7.61%, are payable in semi-annual installments of approximately \$472,000, and mature May 1, 2027. Amounts outstanding under the bonds are secured by the direct financing lease discussed below.

Aggregate scheduled principal and interest payments due on RI Commerce Corporation's revenue bonds and total future minimum lease payments receivable at June 30, 2018 are as follows:

<u>June 30, 2018</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,990,807	\$ 1,394,568
2020	3,235,839	1,151,486
2021	3,534,654	886,863
2022	1,248,928	649,638
2023	1,340,606	555,158
2024-2028	<u>6,467,712</u>	<u>1,125,976</u>
	18,818,546	<u>\$ 5,763,689</u>
Less current portion	<u>(2,990,807)</u>	
Net Long-Term Portion of Bonds Payable	<u>\$ 15,827,739</u>	

RI Commerce Corporation has entered into direct financing leases with Bank of America and FMR Rhode Island, Inc. (FMR). Total minimum lease payments receivable and unearned income under direct financing leases is equivalent to scheduled aggregate principal payments and scheduled aggregate interest payments, respectively, under the bonds payable, net of job rent credits. Job rent credits are payable by RI Commerce Corporation semi-annually over the life of the bonds provided that the lessees achieve certain job targets. For the years ended June 30, 2018 and 2017, job rent credits issued by RI Commerce Corporation totaled \$3,114,276 and \$3,307,276, respectively.

Cash and investments on hand related to, and collections on, net investment in direct financing leases are restricted to pay the bonds issued to finance such direct financing lease transactions. The current portion of amounts payable from restricted assets equals the \$2,990,807 current portion of long-term debt.

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Changes in long-term obligations during the year ended June 30, 2018, excluding the OPEB liability and the net pension liability, and including SBLF, were as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts Due</u> <u>Within One Year</u>
Revenue bonds	\$ 21,584,222	\$	\$ 2,765,676	\$ 18,818,546	\$ 2,990,807
Advances from State for conduit debt obligations	23,634,113			23,634,113	
Unearned revenue	16,404,339	6,942,667	12,501,293	10,845,713	2,496,382
Payable from restricted assets	<u>3,116,817</u>	<u>878,971</u>	<u>819,465</u>	<u>3,176,323</u>	
	<u>\$ 64,739,491</u>	<u>\$ 7,821,638</u>	<u>\$ 16,086,434</u>	<u>\$ 56,474,695</u>	<u>\$ 5,487,189</u>

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7. STATE APPROPRIATIONS

During the years ended June 30, 2018 and 2017, RI Commerce Corporation received the following line item appropriations from the State:

	<u>2018</u>	<u>2017</u>
Base budget funding	\$ 7,224,514	\$ 7,434,514
Chafee Center at Bryant	376,200	376,200
Public investment payment (Note 10)	3,560,000	3,560,000
Job rent credits (Note 6)	3,114,276	3,307,276
RI Airport Impact Aid	1,009,896	1,010,146
Science and Technology Advisory Council (STAC)	800,000	1,150,000
Innovative Matching Grants (IMG)	1,000,000	1,000,000
Rebuild Rhode Island Tax Credit (Fund 91)	12,500,000	25,000,000
Industry Cluster (Fund 92)		500,000
Main Street (Fund 94)	500,000	1,000,000
Innovative Initiative (Fund 96)	1,000,000	1,500,000
First Wave Closing (Fund 97)	1,800,000	8,500,000
PTECH (Fund 90)		1,200,000
Airport Services (Fund 89)	500,000	1,500,000
Wavemaker Fellowship (Fund 98)	800,000	2,000,000
Solarize	3,241,513	95,181
Other grant reimbursements	597,694	446,443
Miscellaneous	<u>2,287</u>	
Subtotal	38,026,380	59,579,760
Less STAC unearned revenue at end of year	(358,284)	(463,409)
Less IMG unearned revenue at end of year	(1,075,295)	(938,305)
Less Due from State, net, at end of year	(2,998,270)	(2,321,363)
Less advance from state for conduit debt expenses at end of year		
Less PTECH unearned revenue at end of year		
Add STAC unearned revenue at beginning of year	508,829	306,452
Add IMG unearned revenue at beginning of year	938,304	411,506
Add PTECH unearned revenue at beginning of year		154,904
Add Due from State at beginning of year	<u>2,321,363</u>	<u>1,362,709</u>
Amount per Cash Flow - State Appropriations	<u>\$ 37,363,027</u>	<u>\$ 58,092,254</u>

For the years ended June 30, 2018 and 2017, the RI Commerce Corporation was appropriated \$6,398,791 and \$5,146,107, respectively, of hotel tax revenue from the State, which is recorded in investment and other revenue. Hotel tax revenue of \$1,312,671 is due from the state as of June 30, 2018.

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For the years ended June 30, 2018 and 2017, appropriations by the General Assembly of the State received by RI Commerce Corporation to fund its expenses comprised approximately 71% and 78% respectively, of RI Commerce Corporation's total operating and nonoperating revenues.

8. PENSION PLANS

A. Rhode Island Commerce Corporation Pension Plan and Trust

Plan Description

Employees of the Corporation hired prior to January 1, 2006 are covered by the Rhode Island Commerce Corporation Pension Plan and Trust (the Plan), a multiple-employer defined benefit pension plan administered by RI Commerce Corporation. Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the Plan, regardless of the status of the employers' payment of its pension obligation to the Plan.

Benefit Provisions

Employees with five or more years of service are entitled to receive annual pension benefits beginning at their normal retirement age, or earlier, as defined. The amount of their monthly benefit shall be equal to the product of 1.715% of their average compensation over the three plan years producing the highest average and their years of service not in excess of thirty-five years. For all participants who started to receive a benefit prior to March 1, 2009, an annual cost of living adjustment (COLA) of 3% will be added to the monthly benefit. The COLA takes place July 1 of every year. The 3% COLA shall not apply to participants who began receiving their benefits after March 1, 2009. Accrued benefits of \$20,000 or less can be paid in a single sum amount.

The plan sponsor has the authority, under the plan document, to amend benefit provisions.

Participants may elect to provide pension benefits to their designated beneficiary. However, such election results in reduced benefit payment to the participants themselves.

Funding Policy

The funding policy and related contribution requirements are established by RI Commerce Corporation. Plan members are not required to contribute to the Plan. The Corporation is responsible for funding the cost of all benefits. RI Commerce Corporation is to fund 100% of the actuarially determined contribution; the rate was 19.99% of the annual covered payroll for the fiscal year ended June 30, 2017. RI Commerce Corporation contributed \$243,372 and \$207,266 for the fiscal years ended June 30, 2018 and 2017, respectively, equal to 100% of the required contributions for fiscal year ended June 30, 2018 and 100% of the required contribution for fiscal year ended June 30, 2017. The actuarially determined contribution is calculated in accordance with the aggregate actuarial cost method. Changes in plan provisions and actuarial assumptions give rise to changes in the unfunded liability. The new layer(s) created each year is (are) amortized over a closed 30-year period on a level dollar basis. Actuarial gains and losses are not separately amortized under this method. Rather, the impact is spread through the normal cost component over the working lifetime of the participant.

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Pension Liability, Pension Expense, and Deferred Inflows and Outflows of Resources

At June 30, 2018 and 2017, RI Commerce Corporation reported a liability of \$83,248 and \$623,724, respectively, for its proportionate share of the net pension liability related to the Plan. The net pension liability was measured as of June 30, 2017, the measurement date. RI Commerce Corporation's proportion of the net pension liability was based on its share of contributions to the Plan for fiscal years 2018 and 2017 relative to the total contributions of all participating employers for those fiscal years. At June 30, 2018 and 2017, RI Commerce Corporation's proportion was 40.79% and 40.47%, respectively.

Pension Expense

For the years ended June 30, 2018 and 2017, RI Commerce Corporation recognized pension expense of \$229,133 and \$103,668, respectively, relating to the Plan. At June 30, 2018 and 2017, RI Commerce Corporation reported the following deferred outflows of resources and deferred inflows of resources related to the Plan:

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
Differences between expected and actual experience	\$ 50,906	\$ 30,965
Changes in assumptions		93,899
Differences between projected and actual earnings	426,356	327,490
Contributions subsequent to the measurement date	<u>243,372</u>	<u>207,266</u>
Total	<u>\$ 720,635</u>	<u>\$ 659,620</u>
Deferred inflows of resources:		
Changes in assumptions	\$ (93,704)	\$ -
Differences projected and actual earnings	<u>(457,121)</u>	<u>-</u>
Total	<u>\$ 550,825</u>	<u>\$ -</u>

For the years ended June 30, 2018 and 2017, \$243,372 and \$207,266, respectively, were reported as deferred outflows of resources related to the Plan resulting from RI Commerce Corporation's contributions in fiscal year 2018 and 2017 subsequent to the measurement date and will be recognized as an increase in the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2017	\$ (84,309)
2018	32,170
2019	60,347
2020	<u>(81,770)</u>
Total	<u>\$ 73,562</u>

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Actuarial Assumptions

The total pension asset was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00%
Long-term rate of return on investments	6.50%, net of pension plan investment expense, including inflation

Mortality rates are based on RP 2014 Employee/Healthy Annuitant (M/F) with MP 2016 Generational Improvements from 2006 tables.

Long-term rate of return assumptions is 7.00% based on historical data and the allocation of the Plan's assets by investment class and the capital market outlook for each investment class. The money-weighted rate of return in prior year was 12.30%. This rate is determined assuming contributions and expenses are paid in the middle of the month and benefits are paid at the beginning of the month.

The asset allocation and best estimates of rates of return for each major asset class are as follows:

<u>Asset Class</u>	<u>June 30, 2017 Asset Allocation</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	58.57%	60.00%	9.0%
Fixed income	19.17%	40.00%	4.0%
Mutual funds	19.90%	0.00%	N/A
Real estate/other	0.25%	0.00%	N/A
Cash	2.11%	0.00%	N/A
Total	<u>100.00%</u>	<u>100.00%</u>	

Discount Rate

The discount rate for purposes of determining the net pension asset was 6.50% at June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from the employers will be made at actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Corporation's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) calculated using the discount rate of 6.50% as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	1.00% Decrease (5.50%)	Current Discount Rate (6.50%)	1.00% Increase (7.50%)
2018			
Corporation's Net Pension Liability (Asset)	\$ 1,009,432	\$ 83,248	\$ (701,634)
2017			
Corporation's Net Pension Liability (Asset)	\$ 1,555,551	\$ 623,724	\$ (164,255)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Rhode Island Commerce Corporation Pension Plan and Trust financial statements.

B. Employees' Retirement System Plan

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Certain employees of the Corporation participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees' Retirement System plan - administered by the Employees' Retirement System of the State of Rhode Island (the System or ERS). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained at <http://www.ersri.org>.

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Benefit Provisions

The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than five years of service as of July 1, 2012. Members are vested after five years of service.

The plan provides for survivor's benefits for service-connected death and certain lump-sum benefits. Joint and survivor benefit provision options are available to members.

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at five-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service, and service-connected disability benefits with no minimum service requirement.

Contributions

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal years 2018 and 2017, participating RI Commerce Corporation employees with less than 20 years of service as of July 1, 2017 were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of July 1, 2017 were required to contribute 11% of their annual covered salary. RI Commerce Corporation is required to contribute at an actuarially determined rate; the rate was 24.87% and 25.34% of annual covered payroll for the fiscal years ended June 30, 2018 and 2017, respectively. RI Commerce Corporation contributed \$23,801, \$23,785 and \$22,833 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources

At June 30, 2018 and 2017, RI Commerce Corporation reported a liability of \$305,320 and \$293,616, respectively, for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability reported as of June 30, 2018 was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017. The net pension liability reported as of June 30, 2017 was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016. RI Commerce Corporation's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2018 and 2017, RI Commerce Corporation's proportion was approximately 0.014%.

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For the years ended June 30, 2018 and 2017, RI Commerce Corporation recognized pension expense of \$20,615 and \$17,717 relating to the ERS, respectively.

At June 30, 2018 and 2017, RI Commerce Corporation reported the following deferred outflows of resources and deferred inflows of resources related to the ERS:

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
Changes in assumptions	\$ 25,735	\$ 20,959
Net difference projected and actual earning	6,861	20,959
Changes in proportionate share of contributions	2,368	
Contribution subsequent to the measurement date	<u>23,801</u>	<u>23,785</u>
Total	\$ <u>58,765</u>	\$ <u>44,744</u>
Deferred inflows of resources:		
Differences between expected and actual experience	\$ 6,228	\$ 7,775
Change in assumptions	830	1,458
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>18,242</u>	<u>16,935</u>
Total	\$ <u>25,300</u>	\$ <u>26,168</u>

Contributions of \$23,801 and \$23,785 are reported as deferred outflows of resources related to pensions resulting from RI Commerce Corporation contributions in fiscal years 2018 and 2017, respectively, subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the years ended June 30, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the ERS will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2019	\$ (2,632)
2020	2,374
2021	6,726
2022	2,324
2023	<u>873</u>
Total	\$ <u>9,665</u>

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 6.50%
Investment rate of return	7.00%

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Mortality rates were based on RP-2014 combined healthy mortality tables with blue collar adjustments for males, both males and females projected with scale Ultimate MP16.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 35 sources. The June 30, 2016 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity		
U.S. Equity	20.60%	6.85%
International Developed Equity	15.90%	6.71%
International Emerging Markets	3.50%	8.91%
Private Growth		
Private Equity	11.30%	9.62%
Non-Core RE	2.20%	5.17%
OPP Private Credit	1.50%	9.62%
Income		
High Yield Infrastructure	1.00%	4.26%
REITS	1.00%	5.17%
Liquid Credit	2.80%	4.26%
Private Credit	3.20%	4.26%
Crisis Protection Class		
Treasury Duration	4.00%	0.83%
Systematic Trend	4.00%	3.81%
Inflation Protection		
Core Real Estate	3.60%	5.17%
Private Infrastructure	2.40%	5.57%
TIPs	1.00%	1.72%
Natural Resources	1.00%	3.98%
Volatility Protection		
IG Fixed Income	11.50%	2.12%
Absolute Return	6.50%	3.81%
Cash	3.00%	0.83%

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Discount Rate

The discount rate used to measure the total pension liability was 7.00% in 2018 and 7.50% in 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.00% as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
2018			
Corporation's Proportionate Share	\$ <u>380,201</u>	\$ <u>305,320</u>	\$ <u>249,546</u>
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
2017			
Corporation's Proportionate Share	\$ <u>359,544</u>	\$ <u>293,616</u>	\$ <u>239,643</u>

Pension Plan Fiduciary Net Position

As noted earlier, ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

C. Defined Contribution Plan

Employees participating in the defined benefit plan (those with less than 20 years of service as of July 1, 2016), as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS Section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The Employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

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Plan Contributions

Certain employees (those with less than 20 years of service as of July 1, 2017) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2017:

<u>Years of Service as of 7/1/2017</u>	<u>Employer Contribution Rate</u>
15-20 Years	1.50%
10-15 Years	1.25%
0-10 Years	1.00%

RI Commerce Corporation did not make any matching contributions into the Plan for the years ended June 30, 2018 and 2017.

Plan Vesting and Contribution Forfeiture Provisions

The total amount contributed by the employee, including associated investment gains and losses, shall immediately vest in the employee's account and is nonforfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is nonforfeitable upon completion of three years of contributory service. Nonvested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement Benefits

Benefits may be paid to an employee after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the employee attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the System. The report may be obtained at <http://www.ersri.org>.

D. Other Plans

Employees of RI Commerce Corporation hired on or after January 1, 2006 participate in the RI Commerce Corporation Section 401a Retirement and Savings Plan (the 401a Plan), a discretionary contribution plan. The 401a Plan provides for RI Commerce Corporation to make discretionary matching or additional contributions as approved by the Board of Directors. For the fiscal year ended June 30, 2018, RI Commerce Corporation contributed 4% of eligible salary and provided up to an additional 3% to the extent the employee participated in the RI Commerce Corporation Section 457 Deferred Compensation Plan (the 457 Plan). Contributions for the fiscal years ended June 30, 2018 and 2017, were \$230,936 and \$218,016, respectively. All employees are eligible to participate in the 457 Plan. Both the 401a Plan and the 457 Plan are calendar-year based.

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9. OTHER POSTEMPLOYMENT HEALTHCARE PLAN (OPEB)

Plan Description

Employees of the RI Commerce Corporation participate in a cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) plan included within the Rhode Island State Employees' and Electing Teachers OPEB System (the System). The RI Commerce Corporation participates in the State Employees plan within the System.

Under a cost sharing plan, OPEB obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The plan provides health care benefits to plan members.

The System is administered by the OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.oag.ri.gov/reports.html>.

Membership and Benefit Provisions

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Contributions

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The RI Commerce Corporation is required to contribute at an actuarially determined rate; the rate was 5.98% of annual covered payroll for the fiscal year ended June 30, 2018. The RI Commerce Corporation contributed \$5,723, \$5,604 and \$5,835 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the RI Commerce Corporation reported a liability of \$67,763 for its proportionate share of the net OPEB liability related to its participation in the System. The net OPEB liability was measured as of June 30, 2017, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The RI Commerce Corporation's proportion of the net OPEB liability was based on its share of contributions to the System for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2017, the RI Commerce Corporation's proportion was 0.131%.

For the year ended June 30, 2018, the RI Commerce Corporation recognized OPEB expense of \$5,050. At June 30, 2018, the RI Commerce Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred outflows of resources:	
Changes in assumptions	\$ 4,066
Contributions subsequent to measurement date	<u>5,723</u>
Total	<u>\$ 9,789</u>
Deferred inflows of resources:	
Difference between expected and actual experience	\$ 3,533
Net difference between projected and actual investment earnings	<u>830</u>
Total	<u>\$ 4,363</u>

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Contributions of \$5,723 are reported as deferred outflows of resources related to OPEB expense resulting from the RI Commerce Corporation's contributions in fiscal year 2018 subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability determined at the June 30, 2018 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2019	\$ (124)
2020	(124)
2021	(124)
2022	(124)
2023	84
Thereafter	<u>114</u>
	<u>\$ (298)</u>

Actuarial Assumptions

The total OPEB liability was determined using the following significant actuarial assumptions:

Inflation	2.75%
Salary increases	3.00% to 6.00%
Investment rate of return	5.00%
Health care cost trend rate	9.00% in fiscal 2018 decreasing annually to 3.5% in fiscal year 2031 and later

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The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from eight nationally recognized investment consulting firms. The June 30, 2017 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	65%	5.58%
Fixed Income	35%	0.52%

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

Discount Rate

The discount rate used to measure the total OPEB liability was 5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 5% as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	<u>1% Decrease (4.0%)</u>	<u>Current Discount Rate (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net OPEB Liability	\$ <u>76,069</u>	\$ <u>67,763</u>	\$ <u>58,347</u>

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Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the net OPEB liability calculated using the healthcare cost trend rate of 9.0% and gradually decreasing to an ultimate rate of 3.5%, as well what the employers' net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease (8.0% Decreasing to 2.5%)	Healthcare Cost Trend Rates (9.0% Decreasing to 3.5%)	1% Increase (8.0% Decreasing to 4.5%)
Net OPEB Liability	\$ <u>57,026</u>	\$ <u>67,763</u>	\$ <u>81,103</u>

OPEB Plan Fiduciary Net Position

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.oag.ri.gov/reports.html>. The report contains detailed information about the OPEB plan's fiduciary net position.

10. COMMITMENTS AND CONTINGENCIES

Grants

Under the terms of federal and other grants, periodic expenditures financed by grants are subject to audits by the grantors or their representatives and, consequently, certain costs may be questioned as not being appropriate, and result in reimbursement to the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Corporation officials believe that such disallowances, if any, would not be material.

Public Investment Payments

RI Commerce Corporation has entered into a Public Investment and HOV Agreement dated September 9, 1996 (the PIP Agreement) with Providence Place Group Limited Partnership (PPG). The PIP Agreement requires RI Commerce Corporation to make annual public investment payments to PPG equal to the lesser of \$3,680,000 or two-thirds of the actual amount of sales tax paid to the State by virtue of sales occurring at or within Providence Place Mall (the Mall) for the first five years, and annual public investment payments to PPG equal to the lesser of \$3,560,000 or two-thirds of the actual amount of sales tax paid to the State by virtue of sales occurring at or within the Mall for the next 15 years. RI Commerce Corporation's requirement to make public investment payments to PPG is subject to the State's annual appropriations to RI Commerce Corporation of related sales tax. During the years ended June 30, 2018

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JUNE 30, 2018 AND 2017**

Litigation

RI Commerce Corporation and SBLF are defendants in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of RI Commerce Corporation's management, the resolution of these matters will not have a material adverse effect on the financial position of RI Commerce Corporation or SBLF.

Risk Management

RI Commerce Corporation is self-insured for unemployment compensation. No accrual has been made for claims expected to arise from services rendered on or before June 30, 2018 because RI Commerce Corporation officials are of the opinion that, based upon prior years' experience, any claims will not be material.

RI Commerce Corporation is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees or acts of God for which RI Commerce Corporation carries commercial insurance. Neither RI Commerce Corporation nor its insurers have settled any claims which exceeded RI Commerce Corporation's insurance coverage in any of the last three fiscal years. There have been no significant reductions in any insurance coverage from amounts in the prior year.

Subsequent Event

Per Article 1 of the January Session of the State of Rhode Island General Assembly (2018-H7200 Substitute A, as amended), Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2019, the RI Commerce Corporation shall transfer to the State Controller the sum of \$750,000 from appropriation provided for the Anchor Institution Tax Credit program in Public Law 2015-H 5900, Substitute A, as amended.

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11. CONDUIT DEBT OBLIGATIONS AND CREDIT ENHANCEMENTS

From time to time, RI Commerce Corporation issues revenue bonds and notes to provide financial assistance to private-sector and public-sector entities for the acquisition and construction of industrial and commercial facilities. The bonds and notes are secured by the property financed and are payable solely from payments received on the underlying mortgage loans and lease agreements. Upon repayment of the bonds and notes, ownership of the acquired facilities transfers to the private-sector or public-sector entity serviced by the bond or note issuance. RI Commerce Corporation is not obligated in any manner for repayment of the bonds and notes, except for those obligations in default that were issued with a credit enhancement by the Corporation under the Job Creation Guaranty Program, as described below. The bonds and notes are not reported as liabilities in the accompanying financial statements.

Under the terms of the various indentures and related loan and lease agreements, the private-sector and public-sector entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. Accordingly, the payments are not shown as receipts and disbursements of RI Commerce Corporation.

During the fiscal 2010 legislative session, the General Assembly approved the Job Creation Guaranty Program (JCGP), which authorizes RI Commerce Corporation to provide credit enhancements of up to \$125,000,000 on bonds or loans privately placed with capital providers and banks. The State will use its "moral obligation" authority to guarantee debt service payments to the bondholders and lenders. In the event of default by one of the obligors in this program, any amounts paid to the bondholders and lenders by the State on behalf of RI Commerce Corporation pursuant to the provisions of this section shall constitute and be accounted for as advances by the State to RI Commerce Corporation.

In 2013, the General Assembly eliminated the JCGP; however, existing guarantees or bond obligations under the JCGP will remain in force and effect until retired pursuant to the terms of each transaction. Total outstanding guarantees as of June 30, 2018 are \$35,250,000 (principal only), including 38 Studios, as described below, in the amount of \$33,000,000 (principal only; total debt service is \$36,963,350).

On November 2, 2010, a loan in the amount of \$75,000,000 was provided to 38 Studios LLC (38 Studios) under the JCGP as follows:

Capital Reserve Account, held by trustee	\$ 12,750,000
Capitalized Interest Account, held by trustee	10,600,000
Amount available for the 38 Studios Project and bond issuance costs	<u>51,650,000</u>
	<u>\$ 75,000,000</u>

Under this program, the State used its "moral obligation" authority to guarantee debt service payments to the bondholders.

On June 7, 2012, 38 Studios filed for bankruptcy under Chapter 7 in Delaware listing \$151,000,000 in liabilities and \$21,700,000 in assets. On August 8, 2012, a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

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This is a conduit debt transaction and credit enhancement with limited recourse and, accordingly, this loan is not reported as a liability in the accompanying financial statements. RI Commerce Corporation is obligated to the bondholders under the loan and trust agreement for all sums borrowed and not repaid, provided, however, that the bondholders may only satisfy such obligation by executing upon the collateral pledged pursuant to the terms of the loan and trust agreement and by proceeding against the reserve account maintained by RI Commerce Corporation pursuant to the JGCP to hold 50% of the fees that RI Commerce Corporation earned under that program. Pursuant to RIGL Section 42-64-18(5), all amounts paid to the bondholders and lenders by RI Commerce Corporation from appropriations received from the State, pursuant to the provisions of this section, shall constitute and be accounted for as advances by the State to RI Commerce Corporation. During the years ended June 30, 2018 and 2017, the amounts paid to RI Commerce Corporation to enable RI Commerce Corporation satisfy debt service obligations related to the JCGP (i.e., 38 Studios) totaled \$-0-.

During the period July 2014 to February 2017, a Rhode Island Superior Court approved various legal settlements entered into by RI Commerce Corporation with defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al., which resulted in the gross payment of \$54,125,000, to the RI Commerce Corporation the net amount of the settlements, totaling \$44,190,101, was paid by RI Commerce Corporation to Bank of New York Mellon Trust Company, N.A., for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program Series 2010 (38 Studios LLC Project)" bonds.

In accordance with the enabling legislation and an agreement between RI Commerce Corporation, the trustee, and 38 Studios, should amounts in the Capital Reserve Account fall below minimum requirements, RI Commerce Corporation has agreed to present the Governor of Rhode Island with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in a budget request for appropriation to the General Assembly. The General Assembly may, but is not required to, appropriate such amounts. The General Assembly approved approximately \$-0- in its budget for the fiscal year ended June 30, 2018 to cover the scheduled bond payments in November 2018 and May 2019. The total debt service for the issuance is \$112,587,089, but the remaining debt service as of June 30, 2018 is \$36,963,350, with reserves of approximately \$12,748,313, the maximum annual (calendar year) debt service. As of June 30, 2018, \$9,032,771 is available in the Principal and Interest Sinking Fund to fund future debt service payments.

The total aggregate principal amount outstanding under all conduit debt obligations at June 30, 2018 and 2017 was approximately \$1,078,000,000 and \$1,077,000,000 respectively.

RHODE ISLAND COMMERCE CORPORATION
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12. CONTRACTUAL SERVICES

Contractual services expense by service category for RI Commerce Corporation and SBLF for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>RI Commerce Corporation</u>	<u>SBLF</u>	<u>RI Commerce Corporation</u>	<u>SBLF</u>
Marketing	\$ 3,132,242	\$	\$ 2,130,197	\$
Consulting	673,884		846,614	
Legal services	665,414	19,713	4,928,712	44,043
Other	296,119	8,520	94,808	1,710
Informational technology	111,768		174,356	
	<u>\$ 4,879,427</u>	<u>\$ 28,233</u>	<u>\$ 8,174,687</u>	<u>\$ 45,753</u>

13. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The following restatement was recorded to the beginning of net position as a result of implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

Net position at June 30, 2017, as previously reported	\$ 40,322,506
Adjustments:	
Record net OPEB liability per GASB No. 75	(68,584)
Deferred outflow of resources related to OPEB	<u>5,574</u>
Net Position at July 1, 2017, as Restated	<u>\$ 40,259,496</u>

**RHODE ISLAND COMMERCE CORPORATION
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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION CONTRIBUTIONS
RI COMMERCE CORPORATION PENSION PLAN AND TRUST
LAST 10 FISCAL YEARS**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$204,613	\$97,831	\$92,525	\$63,264	\$88,332	\$100,969	\$53,064	\$127,299	\$188,504	\$253,762
Contributions in relation to the actuarially determined contribution	\$207,271	\$88,549	\$45,990	\$63,264	\$88,332	\$108,596	\$53,515	\$128,436	\$218,400	\$293,262
Contribution deficiency/(excess)	(\$2,658)	\$9,282	\$46,535	\$0	\$0	(\$7,627)	(\$451)	(\$1,137)	(\$29,896)	(\$39,500)
Covered employee payroll	\$ 1,036,833	\$1,077,914	\$1,118,572	\$1,154,143	\$1,166,710	\$1,264,082	\$1,419,660	\$1,495,990	\$1,500,256	\$1,770,236
Contributions as a percentage of covered employee payroll	19.99%	8.21%	4.11%	5.48%	7.57%	8.59%	3.77%	8.59%	14.56%	16.57%

Actuarially Determined Contribution:

Calculated in accordance with the Aggregate Actuarial Cost Method

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION CONTRIBUTIONS
EMPLOYEES RETIREMENT SYSTEM (ERS) PLAN
LAST 10 FISCAL YEARS**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$23,801	\$23,785	\$22,833	\$21,260	Schedule is intended to show information for 10 years - additional years will be displayed as they become available.					
Contributions in relation to the statutorily determined contribution	\$23,801	\$23,785	\$22,833	\$21,260						
Contribution deficiency/(excess)	\$0	\$0	\$0	\$0						
Covered employee payroll	\$92,559	\$92,891	\$91,340	\$91,129						
Contributions as a percentage of covered employee payroll	25.71%	25.61%	25.00%	23.33%						

Note - Rhode Island General Laws requires participating employers to contribute an actuarially determined rate to the ERS plan.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
RI COMMERCE CORPORATION PENSION PLAN AND TRUST
LAST 10 FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Corporation's proportion of the net pension asset	40.79%	40.47%	40.89%	42.15%	Schedule is intended to show information for 10 years - additional years will be displayed as they become available.					
Corporation's proportionate share of the net pension liability (asset)	\$83,248	\$623,724	\$1,717	(\$477,935)						
Corporation's covered-employee payroll	\$1,036,833	\$1,077,914	\$1,118,572	\$1,166,710						
Corporation's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	8.03%	57.86%	0.15%	-40.96%						
Plan fiduciary net position as a percentage of the total pension asset	98.95%	91.89%	99.98%	106.84%						

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
EMPLOYEES RETIREMENT SYSTEM (ERS) PLAN
LAST 10 FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Corporation's proportion of the net pension liability	0.01%	0.01%	0.01%	0.02%	Schedule is intended to show information for 10 years - additional years will be displayed as they become available.					
Corporation's proportionate share of the net pension liability (asset)	\$305,320	\$293,616	\$270,891	\$273,850						
Corporation's covered-employee payroll	\$90,919	\$92,891	\$91,340	\$91,129						
Corporation's proportionate share of the net pension liability as a percentage of its covered employee payroll	335.82%	316.09%	296.58%	300.51%						
Plan fiduciary net position as a percentage of the total pension liability	51.88%	51.90%	58.58%	55.03%						

RHODE ISLAND COMMERCE CORPORATION
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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION'S CONTRIBUTIONS
STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM PLAN
LAST 10 FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily determined contribution	\$5,723	Schedule is intended to show information for 10 years - additional years will be displayed as they become available.								
Contributions in relation to the statutorily determined contribution	\$5,723									
Contribution deficiency (excess)	\$0									
Rhode Island Commerce Corporation's covered payroll	\$95,703									
Contribution as a percentage of covered payroll	5.98%									

Note: Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate.

**RHODE ISLAND COMMERCE CORPORATION
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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
SCHEDULE OF CORPORATION'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM PLAN
LAST 10 FISCAL YEARS**

Measurement Date **June 30, 2017**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Corporation's proportion of the net pension liability	1.30450600%	Schedule is intended to show information for 10 years - additional years will be displayed as they become available.								
Corporation's proportionate share of the net pension liability (asset)	\$67,763									
Corporation's covered-employee payroll	\$95,703									
Corporation's proportionate share of the net pension liability as a percentage of its covered employee payroll	70.81%									
Plan fiduciary net position as a percentage of the total pension liability	22.38%									

Note: The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

**RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Defense		
<i>Direct Programs:</i>		
Defense Industry Economic Diversification Strategy (STEAMengine)	12.617	\$ 1,107,063
Procurement Technical Assistance for Business Firms	12.002	<u>357,506</u>
Total U.S. Department of Defense		1,464,569
U.S. Department of Commerce		
<i>Direct Programs:</i>		
Public Works and Economic Development Cluster: Economic Adjustment Assistance	11.307	9,655,045
U.S. Environmental Protection Agency		
<i>Direct Programs:</i>		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	112,752
U.S. Department of Energy		
<i>Passed Through the State of Rhode Island:</i>		
State Energy Program	81.041	<u>24,525</u>
Total Expenditures of Federal Awards		\$ <u><u>11,256,891</u></u>

The accompanying notes are an integral part of this schedule

**RHODE ISLAND COMMERCE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Rhode Island Commerce Corporation (RI Commerce Corporation) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Rhode Island Commerce Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the RI Commerce Corporation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenses are recognized following the cost principles contained in the Uniform Guidance.

3. Determination of Major Programs

The determination of major Federal financial assistance programs was based on the overall level of expenditures for all Federal programs for the State of Rhode Island, of which RI Commerce Corporation is a component unit. As such, the determination of major programs is made at the State level, where it was determined that none of Rhode Island Commerce Corporation's federal programs were major programs during the State fiscal year ended June 30, 2018.

4. Loans Balances Outstanding

There are no balances of loans outstanding with continuing compliance requirements under federal loan and loan guarantee programs at June 30, 2018.

The Small Business Loan Fund Corporation had \$9,655,045 in loans outstanding with continuing compliance requirements under federal loan and loan guarantee programs at June 30, 2018.

5. Passed Through to Subrecipients

Rhode Island Commerce Corporation did pass through Federal awards to subrecipients during the State fiscal year ended June 30, 2018.

12.617 Economic Adjustment Assistance for State Governments

The University of Rhode Island Research Foundation,	\$ 748,802
Design Catalyst, LLC,	114,995
Rhode Island School of Design	237,902
Bryant University	1,595
Ninigret Partners	<u>3,769</u>
	<u>\$ 1,107,063</u>

6. Indirect Cost Rate

RI Commerce Corporation has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance in certain circumstances.

RHODE ISLAND COMMERCE CORPORATION
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STATE OF RHODE ISLAND REQUIRED FORMAT
JUNE 30, 2018

Combined Statement of Net Position

Attachment B

Assets

Current assets:

Cash and cash equivalents	\$ 5,380,007
Investments	
Receivables (net)	1,531,279
Restricted assets:	
Cash and cash equivalents	79,489,582
Investments	3,938,234
Receivables (net)	16,411
Other assets	
Due from primary government	3,222,056
Due from other State component units	16,034
Due from other governments	
Inventories	
Other assets	475,794
Total current assets	<u>94,069,397</u>

Noncurrent assets:

Investments	885,078
Receivables (net)	4,379,296
Restricted assets:	
Cash and cash equivalents	10,596,833
Investments	13,242,768
Receivables (net)	227,476
Other assets	
Due from other State component units	
Capital assets - nondepreciable	128,762
Capital assets - depreciable (net)	1,011,333
Net pension asset	
Other assets, net of amortization	
Total noncurrent assets	<u>30,471,546</u>

Total assets	<u>124,540,943</u>
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Deferred Outflows of Resources

Accumulated decrease in fair value of hedging derivatives	
Deferred losses on refunding	
Other deferred outflows of resources	803,800
Total deferred outflows of resources	<u>803,800</u>

RHODE ISLAND COMMERCE CORPORATION
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STATE OF RHODE ISLAND REQUIRED FORMAT (CONTINUED)
JUNE 30, 2018

Combined Statement of Net Position

Attachment B

Liabilities

Current liabilities:

Cash overdraft	
Accounts payable	\$ 719,735
Due to primary government	223,786
Due to other State component units	
Due to other governments	
Unearned revenue	2,496,382
Other current liabilities	1,446,206
Current portion of long-term debt	2,990,807
Total current liabilities	<u>7,876,916</u>

Noncurrent liabilities:

Due to primary government	
Advance from State for conduit debt obligations	23,634,113
Due to other governments	
Due to other State component units	
Net pension liability	388,568
Net OPEB obligation	67,763
Unearned revenue	8,349,331
Notes payable	
Loans payable	
Obligations under capital leases	
Compensated absences	
Other liabilities	3,176,323
Bonds payable	15,827,739
Total noncurrent liabilities	<u>51,443,837</u>

Total liabilities 59,320,753

Deferred Inflows of Resources

Accumulated increase in fair value of hedging derivatives	
Deferred gains on refunding	
Other deferred inflows of resources	595,099
Total deferred inflows of resources	<u>595,099</u>

Net Position

Investment in capital assets	1,133,595
Restricted for:	
Debt	
Other	76,034,891
Nonexpendable	
Unrestricted (deficit)	<u>(11,739,595)</u>
Total net position	<u>\$ 65,428,891</u>

RHODE ISLAND COMMERCE CORPORATION
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STATE OF RHODE ISLAND REQUIRED FORMAT
FOR THE YEAR ENDED JUNE 30, 2018

<u>Combined Statement of Activities</u>	<u>Attachment C</u>
Expenses	\$ <u>42,080,574</u>
Program Revenues	
Charges for services	5,751,320
Operating grants and contributions	40,946,219
Capital grants and contributions	
Total program revenues	<u>46,697,539</u>
Net (expenses) revenues	<u>4,616,965</u>
General Revenues	
Interest and investment earnings	8,919,297
State appropriations	
Total general revenues	<u>8,919,297</u>
Income before transfers and special and extraordinary items	13,536,262
Transfer from other State component unit	414,540
Special items	
Extraordinary items	
Change in net position	13,950,802
Total net position - beginning	<u>51,478,089</u>
Total net position - ending	\$ <u><u>65,428,891</u></u>

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATE OF RHODE ISLAND REQUIRED FORMAT
JUNE 30, 2018

<u>Combined Schedule of Long-Term Debt</u>		<u>Attachment D</u>
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,990,807	\$ 1,394,568
2020	3,235,839	1,151,486
2021	3,534,654	886,863
2022	1,248,928	649,638
2023	1,340,606	555,158
2024-2028	<u>6,467,712</u>	<u>1,125,976</u>
	<u>\$ 18,818,546</u>	<u>\$ 5,763,689</u>

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATE OF RHODE ISLAND REQUIRED FORMAT
FOR THE YEAR ENDED JUNE 30, 2018

Attachment E

Combined Schedule of Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds and leases payable, restricted	\$ 21,584,222	\$	\$ 2,765,676	\$ 18,818,546	\$ 2,990,807	\$ 15,827,739
Net unamortized premium / discount						
Deferred amount on refunding						
Bonds payable	21,584,222	-	2,765,676	18,818,546	2,990,807	15,827,739
Notes payable						
Loans payable						
Obligations under capital leases						
Net OPEB liability	68,584	5,050	5,871	67,763		67,763
Net pension obligation	623,724	81,531	622,007	83,248		83,248
Net pension liability - ERS plan	293,616	32,712	21,008	305,320		305,320
Advance from State for conduit debt obligations	23,634,113			23,634,113		23,634,113
Unearned revenue, restricted	16,404,339	6,942,667	12,501,293	10,845,713	2,496,382	8,349,331
Due to other State component units						
Other liabilities, payable from restricted assets	3,116,817	878,971	819,466	3,176,323		3,176,323
	<u>\$ 65,725,415</u>	<u>\$ 7,940,931</u>	<u>\$ 16,735,321</u>	<u>\$ 56,931,026</u>	<u>\$ 5,487,189</u>	<u>\$ 51,443,837</u>

**RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

Date	Payee	Amount	Purpose
8/3/2017	Louis Francis	\$ 1,312.82	NCMA Conference in Chicago, IL
8/3/2017	Soraya Sundberg	1,406.36	NCMA Conference in Chicago, IL
8/18/2017	Bryant University/Chafee Center	1,000.00	Administration Fee for Mark Brodeur for Trade Mission to Ireland
8/18/2017	SSTI	625.00	Registration Fee for SSTI Conference in Washington, DC for C. Smith
8/18/2017	RI Food Dealers Association	265.00	Conference Fee for the RI Business Day Conference in Washington, DC for D. Early
8/18/2017	RI Food Dealers Association	265.00	Conference Fee for the RI Business Day Conference in Washington, DC for E. Tanner
9/14/2017	RI Food Dealers Association	315.00	Conference Fee for the RI Business Day Conference in Washington, DC for C. Smith & Trans. for D. Early
9/14/2017	APTAC	2,235.00	Registration Fee for Fall 2017 APTAC Conference in Washington, DC for PTAC Employees
9/29/2017	Christine Smith	954.02	SSTI Conference in Washington, DC
9/29/2017	Jillian Butler	917.01	SSTI Conference in Washington, DC
9/29/2017	Mark Brodeur	2,770.00	International Trade Mission to Ireland and Northern Ireland
9/29/2017	Lara Salamano	1,012.50	International Trade Mission to Ireland
9/29/2017	Discover New England	8,250.00	Registration, Hotel & Airfare for Mark Brodeur for World Travel Market in London
9/29/2017	RI Food Dealers Association	25.00	Transportation Fee for the RI Business Day Conference in Washington, DC for C. Smith
10/5/2017	Mark Brodeur	807.34	PR Media Event in New York City, NY
10/12/2017	Hilary D. Fagan	1,696.33	IEDC Training Conference in Toronto, Canada
10/12/2017	Lara Salamano	707.06	PR Media Event in New York City, NY
10/12/2017	Nathaniel (Jeff) Tingley	1,429.40	Insuretech Conference in Las Vegas, NV
10/12/2017	Christine Smith	375.95	RI Business Day Conference in Washington, DC
10/20/2017	Hilary D. Fagan	489.69	Infosys Event in New York, NY
10/27/2017	Bryant University/Chafee Center	461.15	International Trade Mission to Ireland and Northern Ireland for Mark Brodeur
10/27/2017	Lynn Rakowsky	389.59	Infosys Event in New York, NY
11/2/2017	Darin Early	539.96	RI Business Day Conference in Washington, DC
11/2/2017	Elizabeth Tanner	621.00	RI Business Day Conference in Washington, DC
11/2/2017	Site Selectors Guild, Inc.	2,000.00	Registration fee for Conference in Cincinnati, OH for Hilary Fagan
11/2/2017	Site Selectors Guild, Inc.	2,000.00	Registration fee for Conference in Cincinnati, OH for Lynn Rakowsky
11/2/2017	National Tour Association	649.00	Registration fee for Conference in San Antonio, TX for Mark Brodeur
11/2/2017	American Bus Association	1,595.00	Registration fee for ABA Marketplace Conference in Charlotte, NC for Mark Brodeur
11/15/2017	American Bus Association	3,500.00	Sponsorship & booth fee for 2018 ABA Marketplace Conference in Charlotte, NC
11/15/2017	Brian Hodge	693.92	PR Media Event in New York City, NY
11/17/2017	SRA International, Inc.	600.00	Registration Fee for the Brownfields Conference in Pittsburgh, PA for L. Lasky, M. Walker & A. Rodriguez
11/17/2017	Melody Weeks	1,213.12	APTAC Fall 2017 Conference in Washington, DC
11/27/2017	Stefan Pryor	664.89	Project Genesis project in Charlotte, NC
11/27/2017	Elizabeth Tanner	961.05	Amazon RFP Bid Presentation in Seattle, WA
11/27/2017	Victor Howard	1,392.75	APTAC Fall 2017 Conference in Washington, DC
11/17/2017	Kaileigh Carroll	1,421.49	APTAC Fall 2017 Conference in Washington, DC
11/27/2017	Elizabeth Tanner	779.93	Route50 Awards Ceremony in Charlotte, NC
11/30/2017	Kayla Rosen	979.17	Project Genesis project in Charlotte, NC
11/30/2017	Darin Early	818.73	Route50 Awards Ceremony in Charlotte, NC
12/12/2017	Nathaniel (Jeff) Tingley	483.00	Meetings with Lexden and Lumisolar in New York, NY
12/12/2017	Robin Erickson	707.06	PR Media Event in New York City, NY
12/14/2017	Michael Walker	1,067.71	Brownfields National Conference in Pittsburgh, PA
12/21/2017	Lisa M. Lasky	797.78	Brownfields National Conference in Pittsburgh, PA
12/21/2017	Albert Rodriguez	827.32	Brownfields National Conference in Pittsburgh, PA
12/21/2017	Mark Brodeur	1,412.79	National Tour Association (NTA) Conference in San Antonio, TX
1/5/2018	Simpleview LLC	1,299.00	Registration fee for CVB Summit in Scottsdale, AZ for Nancy-Jean Vachon
1/12/2018	Discover New England	4,300.00	Registration, Hotel & Airfare for Nancy-Jean Vachon for Holiday World Show in Dublin, Ireland
1/18/2018	Mark Brodeur	444.41	World Travel Market in London, England
1/26/2018	Hilary D. Fagan	719.17	Project Genesis project in Charlotte, NC
2/2/2018	Mark Brodeur	2,178.97	American Bus Association Marketplace in Charlotte, NC
2/2/2018	Jesse Saglio	457.91	Infosys Event & AgTech Forum in New York, NY
2/2/2018	APTAC	1,390.00	Registration Fee for Spring 2018 APTAC Conference in Jacksonville, FL for PTAC Employees
2/16/2018	Nancy-Jean Vachon	267.77	Dublin Holiday World Show in Dublin, Ireland
2/16/2018	ApplySci LLC	1,895.00	Registration fee for Stefan Pryor for Wearable Tech+ Digital Health + Neurotech in Stanford, CA
3/2/2018	Annie Ratanasim	1,430.45	Solar Power Northeast Conference in Boston, MA
3/2/2018	US Travel Association	8,950.00	Booth & Registration Fees for IPW Conference in Denver, CO
3/2/2018	Discover New England	5,900.00	Registration, Hotel & Airfare for Mark Brodeur for IPW in Denver, CO
3/2/2018	Discover New England	11,200.00	Registration, Hotel & Airfare for Mark Brodeur for Scandinavian Mission & ITB Marketplace in Berlin
3/9/2018	Institute for Professionals in Taxation	5,000.00	Exhibitor Fee at IPT's Credits & Incentives Symposium in Orlando, FL
3/16/2018	Melody Weeks	1,545.39	APTAC Spring 2018 Conference in Jacksonville, FL
3/16/2018	Louis Francis	1,497.16	APTAC Spring 2018 Conference in Jacksonville, FL
3/23/2018	Annie Ratanasim	251.28	Solar in Your Community Conference in Washington, DC
3/23/2018	Mark Brodeur	976.18	Scandinavian Mission & ITB Marketplace in Berlin, Germany
3/29/2018	Lynn Rakowsky	1,241.06	Site Selectors Guild Conference in Cincinnati, OH
3/29/2018	Kaileigh Carroll	843.50	DLA TKO Training in Columbus, OH
4/6/2018	Jean Riendeau	1,547.43	USDOD DIA Conference in Arlington, VA
4/6/2018	Stefan Pryor	1,841.44	Wearable/Neuro Tech Conference in Palo Alto, CA
4/13/2018	Discover New England	350.00	Hotel for Boston Media visits in Boston, MA
4/26/2018	Stefan Pryor	616.77	FED Forum in Washington, DC
4/26/2018	Hilary D. Fagan	1,048.53	Site Selectors Guild Conference in Cincinnati, OH
4/26/2018	Mark Brodeur	142.32	Boston Media visits in Boston, MA
4/26/2018	Mark Brodeur	702.80	New York Media visits in New York, NY
5/18/2018	Robin Erickson	1,978.75	MMGY Mojo Conference in Bermuda
5/18/2018	Discover New England	457.44	Hotel for Mark Brodeur for DNE Summit in Falmouth, MA
5/18/2018	Mark Brodeur	244.53	DNE Summit in Falmouth, MA
5/24/2018	Annie Ratanasim	1,092.85	CESA Conference in Chicago, IL
5/24/2018	Stefan Pryor	2,045.00	Registration fee for NeuroTech Conference in Boston, MA
5/24/2018	Stefan Pryor	807.60	LiveXchange Conference in Madison, WI
6/8/2018	NCMA	1,125.00	Registration Fee for Louis Francis for World Congress Training Conference in Cleveland, OH
6/8/2018	Mark Brodeur	764.00	IPW Conference in Denver, CO
6/22/2018	Stacy Farrell	849.09	CDFA EDA Revolving Loan Fund Training Course in Baltimore, MD

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Date	Payee	Amount	Purpose
6/22/2018	Jean Riendeau	\$ 38.34	OEA Conference in Atlanta, GA
6/22/2018	Dan Jennings	671.05	Anchor Collaborative Convening Conf in Baltimore, MD
6/28/2018	Kaileigh Carroll	781.16	Matchmaker Event in Killington, VT
6/28/2018	Melody Weeks	740.11	DoD Training & Matchmaker Event in Killington, VT
6/30/2018	Robin Erickson	2,198.49	Simpleview Website Conference in Scottsdale, AZ
6/30/2018	Nancy-Jean Vachon	2,057.89	Simpleview Website Conference in Scottsdale, AZ
6/30/2018	Nathaniel (Jeff) Tingley	1,849.01	
6/30/2018	Yi Yi Ian Chin	672.47	SelectUSA Summit in Washington, DC
6/30/2018	Lynn Rakowsky	1,781.55	Gaia Women Leadership Conference in Santa Barbara, CA
6/30/2018	William Ash	1,885.22	PFM Bond Financing Seminar in Philadelphia, PA
6/30/2018	Hilary D. Fagan	504.35	LiveXchange Conference in Madison, WI
6/30/2018	Hilary D. Fagan	1,079.40	SelectUSA Summit in Washington, DC
6/30/2018	Stefan Pryor	1,982.13	SelectUSA Summit in Washington, DC
		\$ <u>137,076.86</u>	

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018

	Rhode Island Commerce Corporation	Renewable Energy Fund	ARRA Energy	Airport Services	PTECH	Rebuild	Industry Cluster	Anchor Institution	Main Street	Small Business Assistance	Innovative Initiative	First Wave Closing	Wavemaker Fellowship	Total
Assets														
Current assets:														
Cash and cash equivalents	\$ 5,380,007	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 5,380,007
Accounts receivable	365,082	49,917												414,999
Interfund receivable	(1,623,382)	(38,257)			(21,057)							1,800,000	(50,680)	66,624
Due from State of Rhode Island	3,222,056													3,222,056
Due from other State component units	16,034													16,034
Deposits and prepaid expenses	470,061													470,061
Restricted:														
Cash and cash equivalents	3,826,553	11,734,895	12,687		984,059	38,500,000	240,666	750,000	2,500,000	1,202,777	2,748,180	13,331,034	3,658,731	79,489,582
Investments	947,427													947,427
Grants and other receivables		15,617	36							758				16,411
Net investment in direct financing leases	2,990,807													2,990,807
Total current assets	15,594,645	11,762,172	12,723	-	963,002	38,500,000	240,666	750,000	2,500,000	1,203,535	2,748,180	15,131,034	3,608,051	93,014,008
Noncurrent assets:														
Restricted:														
Cash and cash equivalents	4,813,868													4,813,868
Notes receivable, less current portion		202,951	24,525											227,476
Net investments in direct financing leases, less current portion	13,242,768													13,242,768
Capital assets not being depreciated	128,762													128,762
Capital assets being depreciated, net	1,004,833												6,500	1,011,333
Total noncurrent assets	19,190,231	202,951	24,525	-	-	-	-	-	-	-	-	-	6,500	19,424,207
Total assets	34,784,876	11,965,123	37,248	-	963,002	38,500,000	240,666	750,000	2,500,000	1,203,535	2,748,180	15,131,034	3,614,551	112,438,215
Deferred Outflows of Resources														
Commerce RI pension plan	720,635													720,635
State OPEB plan	9,789													9,789
State of Rhode Island pension plan	73,376													73,376
Total deferred outflows of resources	803,800	-	-	-	-	-	-	-	-	-	-	-	-	803,800

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RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018

	Rhode Island Commerce Corporation	Renewable Energy Fund	ARRA Energy	Airport Services	PTECH	Rebuild	Industry Cluster	Anchor Institution	Main Street	Small Business Assistance	Innovative Initiative	First Wave Closing	Wavemaker Fellowship	Total
Liabilities														
Current liabilities:														
Accounts payable	\$ 654,109	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 59,461	\$	\$	\$ 713,570
Accrued expenses and other	1,120,058	9,000					19,830		32,400	132,571	115,870	13,122		1,442,851
Due to State agencies	223,786													223,786
Payable from restricted assets	2,990,807													2,990,807
Unearned revenue, restricted	1,453,052													1,453,052
Total current liabilities	6,441,812	9,000	-	-	-	-	19,830	-	32,400	132,571	175,331	13,122	-	6,824,066
Noncurrent liabilities:														
Liabilities payable from restricted cash and cash equivalents	3,176,323													3,176,323
Other post-employment benefit liability	67,763													67,763
Net pension obligation	83,248													83,248
State net pension liability	305,320													305,320
Bonds and leases payable, less current portion, restricted	15,827,739													15,827,739
Advances from State for conduit debt obligations - 38 Studios (Note 11)	23,634,113													23,634,113
Unearned revenue, restricted	16,463	8,332,868												8,349,331
Total noncurrent liabilities	43,110,969	8,332,868	-	-	-	-	-	-	-	-	-	-	-	51,443,837
Total liabilities	49,552,781	8,341,868	-	-	-	-	19,830	-	32,400	132,571	175,331	13,122	-	58,267,903
Deferred Inflows of Resources														
RI Commerce Corporation pension plan	550,825													550,825
State OPEB plan	4,363													4,363
State of Rhode Island pension plan	39,911													39,911
Total deferred inflows of resources	595,099	-	-	-	-	-	-	-	-	-	-	-	-	595,099
Net Position														
Investment in capital assets	1,133,595													1,133,595
Restricted for grants and other programs	2,357,039	3,623,255	37,248		963,002	38,500,000	220,836	750,000	2,467,600	1,070,964	2,572,849	15,117,912	3,614,551	71,295,256
Unrestricted (deficit)	(18,049,838)													(18,049,838)
Total Net (Deficit) Position	\$ (14,559,204)	\$ 3,623,255	\$ 37,248	\$ -	\$ 963,002	\$ 38,500,000	\$ 220,836	\$ 750,000	\$ 2,467,600	\$ 1,070,964	\$ 2,572,849	\$ 15,117,912	\$ 3,614,551	\$ 54,379,013

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2017

	Rhode Island Commerce Corporation	Renewable Energy Fund	Job Creation Guaranty	ARRA Energy	Airport Services	PTECH	Rebuild	Industry Cluster	Anchor Institution	Main Street	Small Business Assistance	Innovative Initiative	First Wave Closing	Wavemaker Fellowship	Total
Assets															
Current assets:															
Cash and cash equivalents	\$ 8,862,754	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 8,862,754
Accounts receivable	710,871	10,500									297				721,668
Interfund receivable	75,342	(30,543)	(3,990)										1,500,000	(1,506,791)	34,018
Due from State of Rhode Island	3,021,363														3,021,363
Due from other State component units	33,414														33,414
Deposits and prepaid expenses	228,560														228,560
Restricted:															
Cash and cash equivalents	2,081,003	11,110,359	3,990	1,529,220	1,500,000	1,056,845	26,000,000	741,472	1,450,000	2,000,000	2,006,233	2,999,411	11,997,751	5,160,964	69,637,248
Investments	943,802														943,802
Grants and other receivables		21,843		45											21,888
Net investment in direct financing leases	2,765,676														2,765,676
Total current assets	18,722,785	11,112,159	-	1,529,265	1,500,000	1,056,845	26,000,000	741,472	1,450,000	2,000,000	2,006,530	2,999,411	13,497,751	3,654,173	86,270,391
Noncurrent assets:															
Restricted:															
Cash and cash equivalents	4,757,083														4,757,083
Notes receivable, less current portion		239,253		32,944											272,197
Net investments in direct financing leases, less current portion	16,233,574														16,233,574
Capital assets not being depreciated	128,762														128,762
Capital assets being depreciated, net	141,428														141,428
Total noncurrent assets	21,260,847	239,253	-	32,944	-	-	-	-	-	-	-	-	-	-	21,533,044
Total assets	39,983,632	11,351,412	-	1,562,209	1,500,000	1,056,845	26,000,000	741,472	1,450,000	2,000,000	2,006,530	2,999,411	13,497,751	3,654,173	107,803,435
Deferred Outflows of Resources															
Commerce RI pension plan	659,620														659,620
State OPEB plan	5,574														5,574
State of Rhode Island pension plan	44,744														44,744
Total deferred outflows of resources	709,938	-	-	-	-	-	-	-	-	-	-	-	-	-	709,938

(Continued on next page)

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017

	<u>Rhode Island Commerce Corporation</u>	<u>Renewable Energy Fund</u>	<u>Job Creation Guaranty</u>	<u>ARRA Energy</u>	<u>Aiport Services</u>	<u>PTECH</u>	<u>Rebuild</u>	<u>Industry Cluster</u>	<u>Anchor Institution</u>	<u>Main Street</u>	<u>Small Business Assistance</u>	<u>Innovative Initiative</u>	<u>First Wave Closing</u>	<u>Wavemaker Fellowship</u>	<u>Total</u>
Liabilities															
Current liabilities:															
Accounts payable	\$ 2,247,875	\$	\$	\$			\$	\$	\$	\$	\$	\$	\$	\$	\$ 2,247,875
Accrued expenses and other	1,472,203	26,061						243,524				195,048			1,936,836
Due to State agencies									700,000						700,000
Payable from restricted assets	2,765,676														2,765,676
Unearned revenue, restricted	1,508,602			1,511,083											3,019,685
Total current liabilities	<u>7,994,356</u>	<u>26,061</u>	<u>-</u>	<u>1,511,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243,524</u>	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>195,048</u>	<u>-</u>	<u>-</u>	<u>10,670,072</u>
Noncurrent liabilities:															
Liabilities payable from restricted cash and cash equivalents	3,115,858												959		3,116,817
Other post-employment benefit liability	68,584														68,584
Net pension obligation	623,724														623,724
State net pension liability	293,616														293,616
Bonds and leases payable, less current portion, restricted	18,818,546														18,818,546
Advances from State for conduit debt obligations - 38 Studios (Note 11)	23,634,113														23,634,113
Unearned revenue, restricted		11,002,237													11,002,237
Total noncurrent liabilities	<u>46,554,441</u>	<u>11,002,237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>959</u>	<u>-</u>	<u>57,557,637</u>
Total liabilities	<u>54,548,797</u>	<u>11,028,298</u>	<u>-</u>	<u>1,511,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243,524</u>	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>195,048</u>	<u>959</u>	<u>-</u>	<u>68,227,709</u>
Deferred Inflows of Resources															
State of Rhode Island pension plan	26,168														26,168
Total deferred inflows of resources	<u>26,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,168</u>
Prior Period Adjustment related to OPEB															
	<u>(63,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,010)</u>
Net Position															
Investment in capital assets	270,190														270,190
Restricted for grants and other programs	572,456	323,114		51,126	1,500,000	1,056,845	26,000,000	497,948	750,000	2,000,000	2,006,530	2,804,363	13,496,792	3,654,173	54,713,347
Unrestricted (deficit)	<u>(14,724,041)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,724,041)</u>
Total Net (Deficit) Position	<u>\$ (13,881,395)</u>	<u>\$ 323,114</u>	<u>\$ -</u>	<u>\$ 51,126</u>	<u>\$ 1,500,000</u>	<u>\$ 1,056,845</u>	<u>\$ 26,000,000</u>	<u>\$ 497,948</u>	<u>\$ 750,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,006,530</u>	<u>\$ 2,804,363</u>	<u>\$ 13,496,792</u>	<u>\$ 3,654,173</u>	<u>\$ 40,259,496</u>

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Rhode Island Commerce Corporation	Renewable Energy Fund	ARRA Energy	Airport Services	PTECH	Rebuild	Industry Cluster	Anchor Institution	Main Street	Small Business Assistance	Innovative Initiative	First Wave Closing	Wavemaker Fellowship	Total
Operating revenues:														
Charges for services:														
Rentals and fees	\$ 15,376	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 15,376
Interest on loans		3,421												3,421
Other income	207,200	5,156,040	566							6,846				5,370,652
Legal settlement - 38 Studios (Note 11)	2,020													2,020
Total operating revenues	224,596	5,159,461	566	-	-	-	-	-	-	6,846	-	-	-	5,391,469
Operating expenses:														
Personnel services	5,598,548	87,851			23,076								93,609	5,803,084
Contractual services	4,605,267	249,365											24,795	4,879,427
Grants		4,705,992												4,705,992
Other expenses	4,929,692	81,413	18,135										16,324	5,045,564
Depreciation and amortization	63,149													63,149
Total operating expenses	15,196,656	5,124,621	18,135	-	23,076	-	-	-	-	-	-	-	134,728	20,497,216
Operating income (loss)	(14,972,060)	34,840	(17,569)	-	(23,076)	-	-	-	-	6,846	-	-	(134,728)	(15,105,747)
Nonoperating revenues (expenses):														
Appropriations from State	17,698,422	3,241,512		500,000		12,500,000			500,000		1,000,000	1,800,000.00	800,000	38,039,934
Investment and other revenue	8,882,211	33,395	3,691											8,919,297
Interest expense	(1,619,895)													(1,619,895)
Grant income	1,488,569													1,488,569
Grant expenses	(1,498,415)													(1,498,415)
Public investment payments and job credits	(6,674,276)													(6,674,276)
Incentive Program expenses				(2,000,000)	(325,000)		(277,112)		(32,400)	(942,412)	(1,231,514)	(97,500)	(704,894)	(5,610,832)
Other	(4,142,672)	(9,606)										(81,380)		(4,233,658)
Total nonoperating revenues (expenses), net	14,133,944	3,265,301	3,691	(1,500,000)	(325,000)	12,500,000	(277,112)	-	467,600	(942,412)	(231,514)	1,621,120	95,106	28,810,724
Income (loss) before transfer	(838,116)	3,300,141	(13,878)	(1,500,000)	(348,076)	12,500,000	(277,112)	-	467,600	(935,566)	(231,514)	1,621,120	(39,622)	13,704,977
Transfer from other State component units	414,540													414,540
Change in net position	(423,576)	3,300,141	(13,878)	(1,500,000)	(348,076)	12,500,000	(277,112)	-	467,600	(935,566)	(231,514)	1,621,120	(39,622)	14,119,517
Total net (benefit) position, beginning of year, as restated	(14,135,628)	323,114	51,126	1,500,000	1,311,078	26,000,000	497,948	750,000	2,000,000	2,006,530	2,804,363	13,496,792	3,654,173	40,259,496
Total Net (Deficit) Position, End of Year	\$ (14,559,204)	\$ 3,623,255	\$ 37,248	\$ -	\$ 963,002	\$ 38,500,000	\$ 220,836	\$ 750,000	\$ 2,467,600	\$ 1,070,964	\$ 2,572,849	\$ 15,117,912	\$ 3,614,551	\$ 54,379,013

RHODE ISLAND COMMERCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Rhode Island Commerce Corporation</u>	<u>Renewable Energy Fund</u>	<u>Job Creation Guaranty</u>	<u>ARRA Energy</u>	<u>Airport Services</u>	<u>PTECH</u>	<u>Rebuild</u>	<u>Industry Cluster</u>	<u>Anchor Institution</u>	<u>Main Street</u>	<u>Small Business Assistance</u>	<u>Innovative Initiative</u>	<u>First Wave Closing</u>	<u>Wavemaker Fellowship</u>	<u>Total</u>
Operating revenues:															
Charges for services:															
Rentals and fees	\$ 15,236	\$	\$	\$				\$	\$	\$	\$	\$	\$	\$	\$ 15,236
Interest on loans		4,356													4,356
Other income	18,002	5,246,890	132,223	746											5,397,861
Legal settlement - 38 Studios (Note 11)	26,246,448														26,246,448
Total operating revenues	<u>26,279,686</u>	<u>5,251,246</u>	<u>132,223</u>	<u>746</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,663,901</u>
Operating expenses:															
Personnel services	5,716,699	138,515													5,855,214
Contractual services	8,029,515	96,982	19,870			18,155								10,165	8,174,687
Grants		4,785,428		-											4,785,428
Other expenses	2,975,437	141,253												22,080	3,138,770
Expenses related to conduit debt obligations - 38 Studios (Note 11)															
	21,404,141														21,404,141
Provision for loan losses and uncollectibles			16,667												16,667
Depreciation and amortization	60,170														60,170
Total operating expenses	<u>38,185,962</u>	<u>5,162,178</u>	<u>36,537</u>	<u>-</u>	<u>-</u>	<u>18,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,245</u>	<u>43,435,077</u>
Operating income (loss)	<u>(11,906,276)</u>	<u>89,068</u>	<u>95,686</u>	<u>746</u>	<u>-</u>	<u>(18,155)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,245)</u>	<u>(11,771,176)</u>
Nonoperating revenues (expenses):															
Appropriations from State	17,755,727	95,181			1,500,000	1,200,000	25,000,000	500,000		1,000,000		1,500,000	8,500,000	2,000,000	59,050,908
Investment and other revenue	7,954,183	12,082													7,966,265
Interest expense	(1,828,448)														(1,828,448)
Grant income	2,821,593														2,821,593
Grant expenses	(2,705,514)														(2,705,514)
Public investment payments and job credits	(6,867,276)														(6,867,276)
Incentive Program expenses						(125,000)		(506,592)			(3,451,470)	(103,874)			(4,186,936)
Other	(3,018,909)	(84,711)											(3,208)		(3,106,828)
Total nonoperating revenues (expenses), net	<u>14,111,356</u>	<u>22,552</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>1,075,000</u>	<u>25,000,000</u>	<u>(6,592)</u>	<u>-</u>	<u>1,000,000</u>	<u>(3,451,470)</u>	<u>1,396,126</u>	<u>8,496,792</u>	<u>2,000,000</u>	<u>51,143,764</u>
Income (loss) before transfer	2,205,080	111,620	95,686	746	1,500,000	1,056,845	25,000,000	(6,592)	-	1,000,000	(3,451,470)	1,396,126	8,496,792	1,967,755	39,372,588
Transfer from other State component units	518,949														518,949
Change in net position	2,724,029	111,620	95,686	746	1,500,000	1,056,845	25,000,000	(6,592)	-	1,000,000	(3,451,470)	1,396,126	8,496,792	1,967,755	39,891,537
Total net (benefit) position, beginning of year	(16,605,424)	211,494	(95,686)	50,380	-	-	1,000,000	504,540	750,000	1,000,000	5,458,000	1,408,237	5,000,000	1,686,418	367,959
Total Net (Deficit) Position, End of Year	<u>\$ (13,881,395)</u>	<u>\$ 323,114</u>	<u>\$ -</u>	<u>\$ 51,126</u>	<u>\$ 1,500,000</u>	<u>\$ 1,056,845</u>	<u>\$ 26,000,000</u>	<u>\$ 497,948</u>	<u>\$ 750,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,006,530</u>	<u>\$ 2,804,363</u>	<u>\$ 13,496,792</u>	<u>\$ 3,654,173</u>	<u>\$ 40,259,496</u>

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

To the Members of the Board of Directors
Rhode Island Commerce Corporation
Providence, Rhode Island

We have audited, in accordance with the 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 Commerce Corporation, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Rhode Island Commerce Corporation's basic financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhode Island Commerce Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Commerce Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Commerce Corporation'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 Rhode Island Commerce Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Rhode Island Commerce Corporation'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 Rhode Island Commerce Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
November 5, 2018