

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed on corporations and taxpayers other than corporations. Interest on the Bonds will, however, be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In addition, the Bonds will be exempt from Rhode Island taxes although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes. See "TAX STATUS" and "APPENDIX B -- Proposed Form of Legal Opinion" herein.

\$93,385,000

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2005, Series E

Dated: November 1, 2005

Due: As shown below

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof and no physical delivery of the Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal and semiannual interest are payable to DTC by The Bank of New York Trust Company, N.A., as Paying Agent. Interest on the Bonds is payable May 1 and November 1 commencing May 1, 2006. The Bonds constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. **The Bonds are subject to redemption prior to maturity as described herein.**

Payment of the principal and interest on certain maturities of the Bonds when due, as indicated below, will be insured by a municipal bond insurance policy to be issued by MBIA simultaneously with the delivery of the Bonds. (See "The Bond Insurance Policy" herein).



Maturity						Maturity					
(November 1)	Amount	Rate	Yield	Price	CUSIPS†	(November 1)	Amount	Rate	Yield	Price	CUSIPS†
2006*	\$2,860,000	3.000%	3.100%	99.903%	76222RAA0	2016*‡	\$4,585,000	5.000%	4.090%	107.393%	76222RAL6
2007*	2,970,000	5.000	3.150	103.519	76222RAB8	2017	4,820,000	4.300	4.310	99.906	76222RAM4
2008*	3,095,000	5.000	3.280	104.841	76222RAC6	2018	5,070,000	4.350	4.370	99.802	76222RAN2
2009*	3,240,000	5.000	3.400	105.905	76222RAD4	2019	5,330,000	4.400	4.430	99.688	76222RAP7
2010*	3,400,000	5.000	3.520	106.703	76222RAE2	2020	5,600,000	4.400	4.480	99.132	76222RAQ5
2011*	3,570,000	5.000	3.680	107.024	76222RAF9	2021	5,890,000	4.500	4.530	99.660	76222RAR3
2012*	3,755,000	5.000	3.800	107.293	76222RAG7	2022	6,190,000	4.500	4.570	99.178	76222RAS1
2013*	3,945,000	5.000	3.900	107.478	76222RAH5	2023	6,510,000	4.500	4.610	98.664	76222RAT9
2014*	4,150,000	5.000	3.960	107.792	76222RAJ1	2024	6,845,000	4.625	4.650	99.685	76222RAU6
2015*	4,365,000	5.000	4.030	107.903	76222RAK8	2025	7,195,000	4.700	4.700	100.000	76222RAV4

† The CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. Neither the Underwriters nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as to the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

‡ The 2016 maturity is priced to the November 1, 2015 optional redemption date at a redemption price of 100%.

The Bonds are offered when, as and if issued by the State and received by the original purchasers, subject to the approval of legality by Holland & Knight LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Partridge Snow & Hahn LLP, Providence, Rhode Island. First Southwest Company, Lincoln, Rhode Island, is serving as financial advisor for the State in this transaction. Delivery of the Bonds to DTC is expected in New York, New York on or about November 9, 2005.

November 2, 2005

* Insured by MBIA Insurance Corporation.

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No dealer, broker, salesperson or other person has been authorized by the State or the original purchasers of the Bonds to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State, and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness by the Original Purchasers of the Bonds or, as to information from other sources, the State. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

First Southwest Company, financial advisor to the State (the “Financial Advisor”) has provided the following sentence for inclusion in this Official Statement: The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the State and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The inclusion of said sentence does not imply any such guarantee by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the State’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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**STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**



CONSTITUTIONAL OFFICERS

Governor.....	Donald L. Carcieri
Lieutenant Governor.....	Charles J. Fogarty
General Treasurer.....	Paul J. Tavares
Attorney General.....	Patrick C. Lynch
Secretary of State.....	Matthew A. Brown

APPOINTED OFFICIALS

Director of Administration	Beverly Najarian
Budget Officer	Rosemary Booth Gallogly
State Controller	Lawrence C. Franklin, Jr.
Auditor General	Ernest A. Almonte

BOND COUNSEL

Holland & Knight LLP
Providence, Rhode Island

DISCLOSURE COUNSEL

Partridge Snow & Hahn LLP
Providence, Rhode Island

FINANCIAL ADVISOR

First Southwest Company
Lincoln, Rhode Island

OFFICIAL STATEMENT

\$93,385,000

**State of Rhode Island and Providence Plantations
General Obligation Bonds
Consolidated Capital Development Loan of 2005, Series E**

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its \$93,385,000 Consolidated Capital Development Loan of 2005, Series E Bonds (the "Bonds"), dated as of November 1, 2005. The proceeds of the Bonds will be used primarily to fund projects included in the State's fiscal year 2006 capital improvement program. See "DESCRIPTION OF THE BONDS - Plan of Finance" herein.

SECURITY FOR THE BONDS

The Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on each of the Bonds as the same shall become due.

Each Bond when issued and paid for will constitute a contract between the State and the owner thereof. The general laws of Rhode Island provide that the General Treasurer may pay debt service on State debt without the need for an annual appropriation (as would be required for other payments from the State treasury). Moreover, each act under which the Bonds are issued expressly provides an appropriation from the treasury of a sum sufficient to pay the annual principal and interest due on the Bonds to the extent the same is not otherwise provided.

Enforcement of a claim for payment of principal of or interest on the Bonds may be subject to the provisions of federal or State statutes, if any, heretofore or hereafter enacted extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied and to the exercise of judicial discretion in accordance with equitable principles.

SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of funds on the Bonds, excluding accrued interest.

Sources		
	Bond Proceeds	\$93,385,000.00
	Premium	<u>2,117,546.02</u>
	Total Sources	\$95,502,546.02
Uses		
	Deposits to Various Capital Projects Funds	\$95,322,546.02
	Costs of Issuance	<u>180,000.00</u>
	Total Uses	\$95,502,546.02

The State consolidates all separate capital development bond funds, excluding those directed by statute to other funds (i.e. enterprise funds) created under acts of the legislature, in the Bond Capital Fund. However, the General Treasurer is directed to deposit the proceeds as described above in the Bond Capital Fund for each individual capital purpose for which bonds are issued. Accrued interest and premium, if any, received upon the sale of bonds, except bonds issued for the benefit of the Rhode Island Water Pollution Revolving Loan Fund, will be applied to the general debt service charges of the State. Accrued interest and premium, if any, received upon the sale of Bonds issued for the benefit of the Rhode Island Water Pollution Revolving Loan Fund will be deposited in a fund held by Rhode Island Clean Water Finance Agency. Expenses incurred in the issuance of the Bonds will be paid from the proceeds of the Bonds or from other available monies in the General Fund.

DESCRIPTION OF THE BONDS

General

Pursuant to Section 35-8-21 of the General Laws of the State, the Bonds will constitute the Consolidated Capital Development Loan of 2005, Series E.

The Bonds will be dated as of November 1, 2005 and will bear interest at the rates set forth on the cover page hereof. Interest will be payable on May 1, 2006 and semi-annually thereafter on November 1 and May 1 of each year in which the Bonds mature and will be paid to the Bondholders of record as of the close of business on the fifteenth day preceding such interest payment date or if such day is not a regular business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds will be payable on November 1 of each year as set forth on the cover page hereof.

Payment of the principal of and interest on the Bonds maturing in the years 2006 through 2016, inclusive (the "MBIA-Insured Bonds"), when due, will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the issuance of the Bonds. See "THE BOND INSURANCE POLICY."

Redemption

Optional Redemption. The Bonds maturing on and before November 1, 2015 are not subject to redemption prior to their stated dates of maturity. The Bonds maturing on and after November 1, 2015, are subject to redemption prior to their stated dates of maturity on and after November 1, 2015, at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at the redemption price of 100% of the principal amount of Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

Notice of Redemption. Notice of redemption of Bonds, specifying the numbers and other designations of Bonds to be redeemed, shall be given not more than 60 days nor less than 30 days prior to the date set for redemption by mailing a copy of such notice to the Bondholders. Notice having been given as specified above, the Bonds so called for redemption shall be due and payable on the redemption date and interest from and after such date shall cease to accrue thereon. If any Bond is to be redeemed in part, upon such redemption the State will issue, at its expense, for the unredeemed balance of such Bond, a new Bond or Bonds of the same interest rate and maturity in any of the authorized denominations.

The State, so long as a book-entry system with DTC is used for determining beneficial ownership of the Bonds, shall send any notice of redemption to DTC, or its nominee, as registered owner of the Bonds (see "Book-Entry-Only System" below). Transfer of such notice to DTC's Participants is the responsibility of DTC. Transfer of such notice to Beneficial Owners by Participants is the responsibility of the Participants and other nominees of Beneficial Owners of the Bonds. Any failure of DTC to mail such notice to any Participant will not affect the validity of the redemption of the Bonds. The State can make no assurances that DTC, the Participants or other nominees of the Beneficial Owners of the Bonds will distribute such redemption notices to the Beneficial Owners of the Bonds, or that they will do so on a timely basis, or that DTC will act as described in this Official Statement.

Book-Entry-Only System

The information set forth in this section concerning DTC and DTC's book-entry system has been obtained from the office of General Counsel to DTC and has been described by DTC as accurately describing DTC, its methods of effecting book-entry transfers of securities distributed through DTC and certain related matters. No representation is made by any person, including the State, other than DTC as to the completeness or the accuracy of such information or as to the absence or material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct and Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds issued are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede &

Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit the Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State and Paying Agent; disbursement of such payments to Direct Participants shall be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

THE STATE, THE PAYING AGENT, THE ORIGINAL PURCHASERS AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Neither the State nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Bonds; (ii) the delivery to any Participant, Beneficial Owner of the Bonds or other person, other than DTC, of any notice with respect to the Bonds; (iii) the payment to any Participant, Beneficial Owner of the Bonds or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Bonds; (iv) any consent given by DTC as registered owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the Bonds are redeemed in part.

Record Date

The record date for each payment of interest for the Bonds is the close of business on the fifteenth day preceding such interest payment date or if such day is not a regular business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

Components of Each Issue By Authorization and Purpose for the Bonds

The Bonds are composed of seven separate loans. For the amortization schedule of each of said loans, see "APPENDIX C - Table of Loan Amortization Schedules" herein. The designation of the loans is specified by the various public laws of the State authorizing the issuance of the Bonds, but each loan is a general obligation of the

State without distinction among them as to payment or security. See “SECURITY FOR THE BONDS” herein. Proceeds of the Bonds will be applied to the following individual loans, which in the aggregate reflect the issue amount of Bonds shown on the cover of this Official Statement:

<u>Amount</u>	<u>Loan</u>
\$ 880,000	Clean Water Environmental Trust Fund Bonds of 1986, Series N
165,000	Open Space and Recreational Area Bonds of 1987, Series L
4,295,000	State Capital Development Loan of 1990, Series O
1,750,000	State Capital Development Loan of 1998, Series I
6,500,000	State Capital Development Loan of 2000, Series E
1,630,000	State Capital Development Loan of 2002, Series C
<u>78,165,000</u>	State Capital Development Loan of 2004, Series B
<u>\$93,385,000</u>	

Plan of Finance

The Bonds will be issued in the amounts, for the capital purposes and pursuant to statutory authorities (the “Acts”) approved by the electorate of the State on the dates indicated in the following table:

<u>Amount</u>	<u>Purpose</u>	<u>Statute</u>	<u>Referendum</u>
	Clean Water Act Environmental Trust		November 4, 1986
\$ 880,000	Fund	Chapter 289 of the P.L. of 1986	
165,000	Open Space	Chapter 425 of the P.L. of 1987	November 3, 1987
1,500,000	Mental Health, Retardation and Hospitals	Chapter 434 of the P.L. of 1990	November 6, 1990
		Chapter 238-P.L. of 1988 as amended by Chapter 303-P.L. of 1989 and Chapter 434-P.L. of 1990	November 6, 1990
1,800,000	R.I. Water Pollution Revolving Loan Fund	Chapter 434 of the P.L. of 1990	November 6, 1990
995,000	Pawtuxet River District Commission	Chapter 31 of the P.L. of 1998	November 3, 1998
1,750,000	Higher Education Facilities	Chapter 55 of the P.L. of 2000	November 7, 2000
6,500,000	Environmental Management	Chapter 65 of the P.L. of 2002	November 5, 2002
1,500,000	Preservation, Recreation & Heritage	Chapter 65 of the P.L. of 2002	November 5, 2002
130,000	Transportation	Chapter 595 of the P.L. of 2004	November 2, 2004
42,000,000	Transportation	Chapter 595 of the P.L. of 2004	November 2, 2004
1,705,000	Regional Career and Tech Schools	Chapter 595 of the P.L. of 2004	November 2, 2004
18,960,000	Higher Education-Residence Halls	Chapter 595 of the P.L. of 2004	November 2, 2004
1,000,000	Groundwater Protection	Chapter 595 of the P.L. of 2004	November 2, 2004
1,200,000	Pell Library-Undersea Exploration	Chapter 595 of the P.L. of 2004	November 2, 2004
5,400,000	Biotechnology Center	Chapter 595 of the P.L. of 2004	November 2, 2004
7,900,000	Open Space, Recreation, Bay and Watershed Protection	Chapter 595 of the P.L. of 2004	November 2, 2004
<u>\$93,385,000</u>			

Authorized But Unissued Direct and Guaranteed Debt

The State's authorized but unissued direct and guaranteed debt is as set forth below:

<u>Purpose</u>	<u>Statutory Authority</u>	<u>Unissued Authorization</u>
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	\$2,644,627.00
Open Space	Ch. 425-P.L. of 1987	168,254.00
Environmental Management	Ch. 552-P.L. of 1989	1,010.00
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	2,845,000.00
R.I. Water Pollution Revolving Loan and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, and Ch. 434 P.L. of 1990	9,000,000.00
Pawtuxet River District Commission	Ch. 434-P.L. of 1990	995,000.00
Elementary and Secondary Education	Ch. 70-P.L. of 1994	815,000.00
Higher Education Facilities	Ch. 31-P.L. of 1998	4,435,000.00
Environmental Management	Ch. 55-P.L. of 2000	13,930,000.00
State Police Headquarters/Fire Academy	Ch. 65-P.L. of 2002	46,470,000.00
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	6,800,000.00
Transportation	Ch. 65-P.L. of 2002	600,000.00
Transportation	Ch. 595-P.L. of 2004	66,520,000.00
Regional Career and Technical Schools	Ch. 595-P.L. of 2004	12,500,000.00
Higher Education Residence Halls	Ch. 595-P.L. of 2004	49,200,000.00
Emergency Water Interconnect	Ch. 595-P.L. of 2004	9,000,000.00
Open Space, Recreation, Bay and Watershed Protection	Ch. 595-P.L. of 2004	69,225,000.00
Pell Library/Undersea Exploration Center	Ch. 595-P.L. of 2004	13,000,000.00
Historic Preservation and Heritage	Ch. 595-P.L. of 2004	3,000,000.00
URI Center for Biotechnology and Like Sciences	Ch. 595-P.L. of 2004	45,000,000.00
Quonset Point/Davisville	Ch. 595-P.L. of 2004	42,000,000.00
		\$398,148,891.00

Source: State Budget Office

THE BOND INSURANCE POLICY

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "THE BOND INSURANCE POLICY". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the State to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA-Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the MBIA-Insured Bonds

pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA’s Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA-Insured Bonds. MBIA’s Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA-Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA’s Policy also does not insure against nonpayment of principal or interest on the MBIA-Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the MBIA-Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a MBIA-Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA-Insured Bonds or presentment of such other proof of ownership of the MBIA-Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA-Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA-Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA-Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such MBIA-Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA-Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA-Insured Bonds. MBIA does not guaranty the market price of the MBIA-Insured Bonds nor does it guaranty that the ratings on the MBIA-Insured Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2005 MBIA had admitted assets of \$10.7 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the MBIA-Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such

documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

RATINGS

Payment of the principal of and interest on the Bonds maturing in the years 2006 through 2016, inclusive (the "MBIA-Insured Bonds") when due, will be insured by a municipal bond insurance policy to be issued by MBIA. Moody's Investors Service, Inc., Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings will assign their municipal bond ratings of "Aaa", "AAA" and "AAA", respectively, to the MBIA-Insured Bonds with the understanding that upon delivery of such MBIA-Insured Bonds, a policy insuring the payment when due of the principal of and interest on the MBIA-Insured Bonds will be issued by MBIA.

The Bonds, other than the MBIA-Insured Bonds, have been assigned ratings by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., of "AA," "Aa3," and "AA," respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

LEGAL MATTERS

The legality of the Bonds will be approved by Holland & Knight LLP, Providence, Rhode Island, Bond Counsel. A copy of the opinion of Bond Counsel in substantially the form to be delivered at closing is included herein as Appendix B. The State will be advised on certain legal matters by Partridge Snow & Hahn LLP, Providence, Rhode Island, Disclosure Counsel.

TAX STATUS

In the opinion of Holland & Knight LLP, Bond Counsel, under existing law and assuming compliance with certain arbitrage and other tax requirements referred to in this section, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax. Interest on the Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Bondholder's alternative minimum tax based on such Bondholder's adjusted current earnings. (See "APPENDIX B - Proposed Form of Legal Opinion").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding the use, expenditure and investment of bond and note proceeds and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements

may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The State will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excludable from gross income for federal income tax purposes.

The foregoing analysis of the exclusion of interest from gross income for purposes of federal income taxation is limited to the initial issuance of the Bonds. Bondholders should consult their tax advisors with respect to any federal tax consequences of secondary market transactions.

Original Issue Discount

Certain of the Bonds (the “Discount Bonds”) may be offered and sold to the public at an original issue discount (the “OID”). The OID is the excess of the stated redemption price at maturity (the face amount) over the “issue price” of such Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the holder of a Discount Bond over the period to maturity at a constant yield as described in Income Tax Regulation Section 1.1272-1 (b). With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period the purchaser owns the Discount Bond (i) is interest excludable from the purchaser’s gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as other interest on the Bonds, and (ii) is added to the purchaser’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. Holders of Discount Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Bond, and as to other federal tax consequences and any state or local tax aspects of owning Discount Bonds.

Bond Premium

Under the Code, a purchaser (other than the purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires a Bond (a “Premium Bond”) for a price in excess of (i) in the case of a Discount Bond, its initial offering price plus accrued OID to the date of purchase (as described in the preceding paragraph) or (ii) in the case of any other non-callable Bond, its stated redemption value at maturity has acquired the Bond with “bond premium”. In the case of Bonds that are callable at the Applicable Call Date (defined below) at a price less than the holder’s acquisition price, the bond premium is the excess of the holder’s acquisition price over the redemption price on the Applicable Call Date. The Applicable Call Date is the first date on which the Bond may be redeemed for a redemption price less than the holder’s acquisition price.

Bond premium is amortized over the remaining term of the Premium Bond for federal income tax purposes. In the case of callable Premium Bonds acquired at a price in excess of par, the bond premium will be amortizable to the Applicable Call Date. For purposes of calculating amortizable bond premium only, a Bond not redeemed on the Applicable Call Date shall be treated as if sold and reacquired on such date at the optional redemption price. The purchaser of a Premium Bond is required to decrease his adjusted basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year during the amortization period. The amount of amortizable bond premium attributable to each taxable year is determined actuarially at a constant interest rate. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

Other Tax Consequences

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds.

Prospective purchasers of the Bonds should also be aware that ownership of the Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the collateral federal income tax and state income tax consequences to them of owning the Bonds.

In the opinion of Bond Counsel, the Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the State seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

There are pending in courts within the State various suits in which the State is a defendant. In the opinion of State Officials, no litigation is pending or, to their knowledge, threatened which is likely to result, either individually or, in the aggregate, in final judgments against the State that would affect materially its financial position.

FINANCIAL ADVISOR

First Southwest Company of Lincoln, Rhode Island has served as the State's Financial Advisor for the Bonds. The services of First Southwest Company have included limited advice as to scheduling and other details of the issue. The rendering of the advice may cause First Southwest Company to have a financial advisory relationship with the State under Rule G-23 of the Municipal Securities Rulemaking Board. The State has consented to the participation by First Southwest Company in the public bidding for the Bonds, should First Southwest Company choose to do so.

CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule") provides that underwriters may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State will covenant, at the time of the delivery of the Bonds, to provide continuing disclosure consistent with the terms of the Rule, as provided in a Continuing Disclosure Certificate to be dated as of the date of the Bonds and incorporated by reference therein.

Pursuant to the Continuing Disclosure Certificate, the State will covenant, agree and undertake to provide the following continuing disclosure with respect to the Bonds:

(1) The State will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State ("SID"), if any: (a) on or before the end of each calendar year commencing December 31, 2005, financial information and operating data relating to the State for the preceding fiscal year of the type presented in Appendix A of the Official Statement prepared in connection with the Bonds regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

(2) The State will provide in a timely manner to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material: (a) principal and interest payment delinquencies; (b) nonpayment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (g) modifications to rights of beneficial owners of the Bonds, (h) Bond calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Bonds; or (k) rating changes to the Bonds by any nationally recognized credit agency which has rated the Bonds at the request of the State. The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Bonds, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

(3) The State will provide, in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of a failure to satisfy the requirements of paragraph (1) above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments to the Rule or authoritative interpretations thereto by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the owners of the Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of State legislation establishing a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clauses (d) and (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any changes in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the State, (such as bond counsel) or by a vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. The Continuing Disclosure Certificate will also state that to the extent the Rule no longer requires issuers such as the State to provide continuing disclosure with respect to securities such as the Bonds, the State's obligation to provide continuing disclosure shall terminate immediately.

The purpose of the State's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the holders of the Bonds from time to time, to specifically enforce the State's obligations hereunder, not to create new contractual or other rights for the original purchasers of the Bonds, any registered owner or Beneficial Owner of the Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the State to comply with any covenant of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations thereunder and not for money damages in any amount. Any failure by the State to comply with any provision of such undertaking shall not constitute an event of default with respect to the Bonds.

Except as noted in the next sentence, the State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In February 2005 the State submitted its annual disclosure related to Motor Fuel Tax Revenue Bonds and GARVEE Bonds approximately seventeen days late. The State has implemented procedures to insure timely filing in the future.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Rosemary Booth Gallogly, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02903, Telephone (401) 222-6400.

ADDITIONAL INFORMATION

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated October 21, 2005 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2004, both of which have been prepared and furnished by the State and which are included in Appendix A.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies or authorities since the date of this Official Statement, except as expressly stated. This Official Statement is not to be construed as a contract or agreement between the State of Rhode Island and the purchasers of the Bonds from time to time.

The Official Statement is submitted only in connection with the sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose.

STATE OF RHODE ISLAND AND PROVIDENCE
PLANTATIONS

By: /s/ Paul J. Tavares
General Treasurer

Dated: November 2, 2005

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**INFORMATION STATEMENT OF THE
STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

DATED: October 21, 2005

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STATE GOVERNMENT ORGANIZATION AND FINANCES

General Information

The State of Rhode Island is governed by its Constitution, the present form of which was adopted by the electorate in 1986 reflecting a comprehensive restatement to replace archaic language and to delete repealed provisions of the 1843 Constitution, as well as various other amendments.

Under the State Constitution, the powers of government are divided into three branches: legislative, executive and judicial. The legislative power of the government is vested in the General Assembly, which consists of a 38 member Senate and a 75 member House of Representatives. They are constituted on the basis of population and the representative districts shall be as nearly equal in population and as compact in territory as possible. All members of the General Assembly are elected biennially from senatorial and representative districts. The General Assembly meets annually beginning on the first Tuesday in January.

The chief executive power of the State is vested in the Governor and, by succession, the Lieutenant Governor. Each is elected for four (4) year terms. The Governor is primarily responsible for the faithful execution of laws enacted by the General Assembly and for the administration of State government through the Executive Department. The State Constitution also provides for the election of three additional general State Officers: the Attorney General, the Secretary of State and the General Treasurer. Under the State Constitution, the Governor is granted the power to veto any act adopted by the General Assembly, provided, however, that any such veto can be overridden by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. The Governor does not have any power of line-item veto.

The judicial power of the State is vested in the Supreme Court and such lower courts as are established by the General Assembly. The Supreme Court, appointed by the Governor and confirmed by the Senate and the House of Representatives, has final revisory and appellate jurisdiction upon all questions of law and equity. The General Assembly has also established a Superior Court, a Family Court, a District Court, a Workers' Compensation Court, a State Traffic Tribunal, and certain municipal courts in various cities and towns in the State.

Municipalities

There are 39 cities and towns in Rhode Island that exercise the functions of local general government. There is no county governmental structure in the State of Rhode Island. Local executive power is generally placed in a mayor, or administrator/manager form of government, and legislative power is vested in either a city or town council. The State Constitution provides municipalities with the right of self-government in all local matters by adopting a "home rule" charter. Every city or town, however, has the power to levy, assess and collect taxes, or borrow money, only as specifically authorized by the General Assembly. Except for matters that are reserved exclusively to the General Assembly, such as taxation and elections, the State Constitution restricts the power of the General Assembly on actions relating to the property, affairs and government of any city or town which has adopted a "home rule" charter, to general laws which apply to all cities and towns, but which shall not affect the form of government of any city or town. The General Assembly has the power to act in relation to a particular home rule charter city or town, provided that such legislative action shall become effective only upon approval of a majority of the voters of the affected city or town. Section 44-35-10 of the General Laws requires every city and town to adopt a balanced budget for each fiscal year. Local governments rely principally upon general real and tangible personal property taxes and automobile excise taxes for provision of revenue.

Since 1985, cities and towns have been prohibited by Section 44-5-2 of the General Laws of the State from imposing a tax levy or tax rate, which increases by more than 5 ½ percent over the previous year's levy or rate. The statute does authorize tax levy or tax rate increases of greater than 5 ½ percent in the event that the amount of debt service required to service present and future general obligation debt of the State increases at a rate greater than 5 ½ percent. The statute also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation of property is being implemented. Provisions of Section 44-5-2 also include authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arises and is certified by the State Auditor General. In such an emergency situation, such levy in excess of a 5 ½ percent increase must be approved by a majority of the city or town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligations bonds and notes is unlimited and each city or

town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. Local communities are to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The final FY 2006 budget provides 3 percent of tax revenues in the reference year will be distributed as general revenue sharing. Despite these delays and proposed freezes, the local reduction in the levy on inventories has continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2006, the first \$5,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which are expected to yield additional lottery revenues to the State. Most additional revenues are dedicated to tax relief. It is expected that these enhanced revenues will result in the elimination of the motor vehicle excise tax by FY 2010, and provides additional property tax relief by dedicating funds to the general revenue sharing and distressed communities program.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. A number of legislative, executive, or collaborative efforts have been made to refine the commitment and strategy for financing local education into the future. Thus far, there has been no strategy confirmed by a statutory scheme specifying a precise method of determining entitlements in future years. Over the last several years, however, the State has typically provided a guaranteed increase for all communities and a larger increase for "poorer" communities.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled \$18.1 million. The FY 2006 Enacted Budget provides \$47.2 million for this category of aid, an increase of 160 percent since FY 1997. A related program will provide approximately \$2.7 million in FY 2006 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general state aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2006 Enacted Budget includes \$65.3 million for this program.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or state-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2006 Enacted Budget includes \$27.0 million for this program. Also, the State makes

payments to communities identified as distressed based upon four different criteria. Appropriations of \$10.0 million were made for FY 2006 to fund entitlements for four communities. Of these four communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the state assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at \$12.3 million for FY 2006.

Principal Governmental Services

Principal State governmental services are functionally divided into six major areas. They are administered and delivered by thirteen departments, the Board of Regents for Elementary and Secondary Education, the Board of Governors for Higher Education, and a number of commissions and small independent agencies. All expenditures by such State agencies, including those funded by federal and restricted use sources, are budgeted by the Governor and appropriated annually by the General Assembly. The following paragraphs describe the major functions of State government.

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including the Department of Administration, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including the Department of Business Regulation and the Public Utilities Commission. The two major departments in the General Government function are the Department of Administration and the Department of Labor and Training.

Department of Administration. The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, taxation, motor vehicle registration, child support enforcement, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, labor relations and public safety. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, supervising the assessment and collection of all State taxes and administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, tax equalization, and planning for municipalities, as well as building code administration. During the 2005 Session of the General Assembly, the State Lottery Commission was abolished and the Lottery became a division within the Department of Administration.

Department of Labor and Training. The Department of Labor and Training is responsible for administering benefit payment programs, workforce development programs, workforce regulation and safety programs, and the Labor Relations Board. The Department is responsible for administering the Employment Security Act, which provides for the payment of benefits to qualified unemployed workers from taxes collected from Rhode Island employers. The Department also administers the Temporary Disability Insurance Act and the Worker's Compensation Act. The Temporary Disability Insurance Act provides for the payment of benefits to workers who are unemployed due to illness or non-work related injuries from taxes paid by all employees. The Worker's Compensation Act provides for the payment of benefits to workers who are unemployed due to work related injuries from insurance premiums paid by employers. The Department's workforce development programs include Employment Resource Centers located throughout the State, which provide job referral, job placement and counseling; and Job Training Partnership Act employment training and support services for adults and youths.

The workforce regulation and safety programs enforce wage, child labor, parental and family medical leave laws; examines, licenses and registers professions such as electricians, pipefitters, and refrigeration technicians; and inspects all State buildings, public buildings, and city and town educational facilities for compliance with building codes. The Department also has primary responsibility for the collection of data on employment and unemployment in Rhode Island.

Human Services

Human Services includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs, care of the disabled by the Department of Mental Health, Retardation and Hospitals, child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services, and financial assistance, health care and social services provided by the Department of Human Services.

The three major departments in the Human Services function include the Departments of Human Services, Children, Youth and Families, and Mental Health, Retardation and Hospitals.

Department of Human Services. The Department of Human Services operates as the principal State agency for the administration and coordination of local, State and federal programs for cash and medical assistance and social services. The responsibilities of the Department include supervision of the following programs: Medical Assistant Programs (Medicaid), the State Children's Health Insurance Program (CHIP), vocational rehabilitation, supplemental security income, general public assistance, food stamps, family independence program, cash assistance, child care and training and social services. The Department also operates the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

Department of Children, Youth, and Families. The Department of Children, Youth, and Families is responsible for providing comprehensive, integrated services to children in the State in need of assistance. The Department was created to assure the consolidation of services to children and their families formerly provided by four other departments. The Department is responsible for providing services to children who are without families or whose families need help in meeting the children's basic needs. Major functions of the Department include investigation of child abuse, direct service delivery to children and their families in their own homes or foster homes, development and provision of alternative community-based living situations and the administrative operation of the juvenile corrections facilities and programs.

Department of Mental Health, Retardation and Hospitals. The Department of Mental Health, Retardation, and Hospitals (MHRH) provides services which may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. The Department either provides these services directly through the Eleanor Slater Hospital system which operates at two sites, the Cranston Unit and the Zambarano Unit, and the Rhode Island Community Living and Supports System (RICLAS), or provides them through contracts with private, non-profit hospitals, and agencies. The Department organizes, sets standards, monitors and funds programs primarily according to the nature of a client's disability. Mental health services help people who have psychiatric disorders and severe mental illness such as manic depression or schizophrenia. Mental retardation and developmental disabilities services assist individuals whose handicap is often accompanied by disabilities like cerebral palsy, epilepsy, autism, behavioral problems and other physical and mental conditions. MHRH hospitals provide long term care for people who need medical treatment and nursing care for problems associated with chronic illness. The Department also provides substance abuse prevention and treatment services in addition to gambling addiction services.

Education

Education includes Elementary and Secondary Education and Higher Education, as well as arts funding, historic preservation and heritage support, educational television, and atomic energy commission activities.

Board of Regents for Elementary and Secondary Education. The Board of Regents for Elementary and Secondary Education is responsible for the formulation and implementation of statewide goals and objectives for elementary, secondary and special populations education and for the allocation and coordination of various educational functions among the educational agencies of the State and local school districts. The Board also establishes State aid reimbursement payments to local school districts, operates the Rhode Island School for the Deaf, the Metropolitan Career and Technical School and William M. Davies Vocational-Technical School, and supervises the State's area vocational-technical schools. The Department also operates the Central Falls School District. The Board appoints a Commissioner of Elementary and Secondary Education to serve as its chief executive officer and the chief administrative officer of the Department of Elementary and Secondary Education.

Board of Governors for Higher Education. The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for higher education in the State, including a comprehensive capital development program. In addition, the Board holds title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education.

Public Safety

Public Safety includes those agencies responsible for the safety and security of the citizens of Rhode Island. The quality of life in Rhode Island is enhanced through the administration of the criminal justice system that provides law enforcement, adjudicates justice, protects life and property, and handles emergencies impacting the State's citizens. Agencies included in this function are the Department of Corrections, the Judicial Department, the State Police and the Attorney General's Office.

Department of Corrections. The Department of Corrections is responsible for the confinement of sentenced and pre-trial adult offenders, the provision of various programs to encourage and assist offenders in modifying their behavior, and the provision of custody and program services for offenders sentenced or otherwise placed in community supervision.

The Department of Corrections is made up of two main programmatic areas, Institutional Corrections and Community Corrections. The Adult Correctional Institutions (ACI) include eight separate facilities and associated support services. Within Community Corrections are Probation and Parole, the Home Confinement Unit, a Risk Assessment Unit and the Furlough Program. Also included in the Department of Corrections budget, but with independent decision-making authority, is the State Parole Board.

The Department also operates the Central Distribution Center which purchases and warehouses food and other supplies for redistribution to state agencies, and operates the Correctional Industries program which employs inmates to manufacture various products or provide services to state and local agencies and non-profit organizations.

Natural Resources

Natural Resources includes those agencies responsible for protecting the natural and physical resources of the State and regulating the use of those resources. Agencies included in this function are the Department of Environmental Management, the Coastal Resources Management Council, and the Water Resources Board.

Department of Environmental Management. The Department of Environmental Management has primary responsibility for environmental programs and bureaus of the State. The Department is charged with the preservation and management of the State's forests, parks, beaches, farms, fisheries and wildlife and with monitoring, controlling and abating air, land and water pollution. In addition, the Department plans, licenses and enforces laws regulating refuse and hazardous waste disposal, pesticides, individual sewage disposal systems, and non-coastal freshwater wetlands. The Department also works with the Coastal Resources Management Council to protect the State's coastline and with the Water Resources Board and Department of Health to protect watersheds and ensure sufficient drinking water supplies. The Department is responsible for operating all State parks, beaches, and recreation facilities including bathing areas, public campsites, historical sites and more than 40,000 acres of public land. The Department also operates commercial fishing ports in Galilee and Newport that house the majority of the State's commercial fishing fleet. The Department administers grant and loan programs for municipal and non-profit organizations, anti-pollution, open space, and recreational development and farmland acquisition programs.

Transportation

Transportation is comprised of the road construction, road maintenance, mass transit, and planning activities of the Department of Transportation. Beginning in FY 1994, the State established the Intermodal Surface Transportation Fund, in partial fulfillment of a plan to join the remaining states in funding transportation expenditures from dedicated user-related revenue sources. This highway fund concept has the advantage of relating the funding of transportation projects to those who utilize the services provided by those projects, by means of financing mechanisms paid directly by those end-users. The concept is also intended to provide a fairly stable revenue stream to enable transportation projects to be eventually financed on a pay-as-you-go basis.

The Intermodal Surface Transportation Fund is supported by the State's 30 cents per gallon motor fuel tax. These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs. The 30 cents per gallon motor fuel tax is allocated as follows: 18.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 6.85 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.4 cents to the General Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Department of Economic Development at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. It is the State's expectation that such "GARVEE" financing will be completed in three series over a period of six years. The first series, in the amount of \$216,805,000, was issued on November 25, 2003, and the second series is expected to be issued in the spring of 2006.

State Fund Structure – Accounting Basis

The accounting system of the State, and that of most of the public authorities and corporations described herein, is organized and operated on a fund basis. Financial operations are recorded on a fiscal year basis (commencing July 1 and ending June 30). Individual funds have been established as separate fiscal and accounting entities to account for financial resources and related liabilities and equities. Financial statements of the State for each fiscal year are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The State's financial statements were prepared, for the first time for the fiscal year ending June 30, 2002, in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial States – and Management's Discussion and Analysis – for State and Local Governments*. The basic financial statements consist of the government-wide financial statements and the fund financial statements. The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position for governmental type activities, proprietary type activities and discretely presented component units, which assists in assessing the State's financial condition at the end of the year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred. The fund financial statements focus on the State's major governmental and enterprise funds, including its blended component units, is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

In anticipation of the implementation of GASB Statement 43, "Other Post Employment Benefits," in December 2003, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits based upon standards proposed at that time. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimate rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 Session of the General Assembly.

Budget Procedures

The State budget of revenues and appropriations is adopted annually by the General Assembly and is prepared for submission to the General Assembly, under the supervision of the Governor, by the State Budget Officer within the Department of Administration. Preparation and submission of the budget is governed by both the State Constitution and the General Laws of the State, which provide various limitations on the powers of the General Assembly and certain guidelines designed to maintain fiscal responsibility.

According to Article IX Section 16 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the Legislature on or before the third Wednesday in February, unless extended by statute. The budget contains a complete plan of estimated revenues and proposed expenditures with a personnel supplement detailing number and titles of positions of each agency and estimates of personnel costs for the next fiscal year.

The budget as proposed by the Governor is considered by the General Assembly. Under State law, the General Assembly may increase, decrease, alter or strike out any items in the budget, provided that such action may not cause an excess of appropriations for revenue expenditures over expected revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it shall provide the necessary additional revenue to cover such appropriations. The Governor may veto legislative appropriations bills. However, the Governor does not have line-item veto authority. The Legislature may override any veto by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. Supplemental appropriation measures shall be submitted by the Governor to the General Assembly on or before the second Tuesday in January. Supplemental appropriations by the General Assembly must be supported by additional revenues and are subject to the Constitutional limitation on State expenditures discussed below.

The General Laws of the State provide that, if the General Assembly fails to pass the annual appropriation bill, the same amounts as were appropriated in the prior fiscal year shall be automatically available for expenditure, subject to monthly or quarterly allotments as determined by the State Budget Officer. Expenditures for general obligation bond indebtedness of the State shall be made as required regardless of the passage of the annual budget or the amount provided for in the prior fiscal year.

The budget as submitted by the Governor is required to contain a statement of receipts and expenditures for the current fiscal year, the budget year (next fiscal year), and two prior fiscal years. Receipt estimates for the current year and budget year are those adopted by the State Consensus Revenue Estimating Conference, as adjusted by any change to rates recommended by the Governor.

The Consensus Revenue Estimating Conference was created in 1990 to provide the Governor and the Assembly with estimates of general revenues. The principals of the Revenue Estimating Conference are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor, with the chair rotating among the three. It must meet at least twice a year (specifically November and May) but can be called at any other time by any member. The principals must reach consensus on revenues. In 1991 the Medical Assistance and Public Assistance Caseload Estimating Conference, similar to the Revenue Estimating Conference, was established to adopt welfare and medical assistance caseload estimates.

In addition to the preparation of the annual budget, the State Budget Officer is also authorized and directed by the general laws: (a) to exercise budgetary control over all State departments; (b) to operate an appropriation allotment system; (c) to develop long-term activity and financial programs, particularly capital improvement programs; (d) to approve or disapprove all requests for new personnel; and (e) to prepare annually a five-year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas which shall be included in the budget submitted to the General Assembly.

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of general fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. The FY 2004 budget reserve account balance was \$84.2 million.

Financial Controls

Internal financial controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, the supervisory powers and functions exercised by the Department of Administration and the accounting and audit controls maintained by the State Controller and the Bureau of Audits. Statutory restrictions include the requirement that all bills or resolutions introduced in the General Assembly which, if passed, would have an effect on State or local revenues or expenditures (unless the bill includes the appropriation of a specific dollar amount) must be accompanied by a "fiscal note", which sets forth such effect. Bills impacting upon State finances are forwarded to the State Budget Officer who determines the agency, or agencies, affected by the bill and is responsible, in cooperation with such agencies, for the preparation of the fiscal note. The Department of Administration's Office of Municipal Affairs is responsible for the preparation of fiscal notes for bills affecting cities and towns.

The Department of Administration is required by law to produce a quarterly report to be made public that incorporates actual expenditures, encumbrances, and revenues with the projected revenues and appropriations. The report also contains a projection of a year-end balance.

The State Controller is required by general law to administer a comprehensive accounting system which will classify the transactions of State departments in accordance with the budget plan, to prescribe a uniform financial, accounting and cost accounting system for State departments and to approve all orders for disbursement of funds from the State treasury. In addition to his or her other duties, the Controller is required to prepare monthly statements of receipts and disbursements in comparison with estimates of revenue and allotments of appropriations.

The General Treasurer is responsible for the deposit of cash receipts, the payment of sums, as may be required from time to time and upon due authorization from the State Controller, and as Chair of the State Investment Commission, the investment of all monies in the State fund structure, as directed by the State Investment Commission. Major emphasis is placed by the General Treasurer on cash management in order to insure that there is adequate cash on hand to meet the obligations of the State as they arise.

The General Treasurer is responsible for the investment of certain funds and accounts of the State on a day-to-day basis. The State treasury balance is determined daily. In addition, the General Treasurer is the custodian of certain other funds and accounts and, in conjunction with the State Investment Commission, invests the amounts on deposit in such funds and accounts, including but not limited to the State Employees' and Teachers' Retirement Trust Fund and the Municipal Employees' Retirement Trust Fund. The General Treasurer submits a report to the General Assembly at the close of each fiscal year on the performance of the State's investments.

The Finance Committee of the House of Representatives is required by law to provide for a complete post-audit of the financial transactions and accounts of the State on an annual basis, which must be performed by the Auditor General, who is appointed by the Joint Committee on Legislative Affairs of the General Assembly. This post-audit is performed traditionally on the basis of financial statements prepared by the State Controller in accordance with the requirements of the Governmental Accounting Standards Board with specific attention to the violation of laws within the scope of the audit, illegal or improper expenditures or accounting procedures and recommendations for accounting and fiscal controls. The Auditor General is additionally directed to review annually all capital development programs of the State to determine: (a) the status of such programs; (b) whether funds are being properly expended; (c) completion dates; and, (d) expended and unexpended fund balances. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2004 reflect audited revenues.

Major Sources of State Revenue

Tax Revenues: Approximately 69.3 percent of all taxes and departmental receipts in FY 2004 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 61.2 percent of all general revenues.

Personal Income Tax. Until July 1, 2001, State law provided for a personal income tax on residents and non-residents (including estates and trusts) equal to the percentage of the federal income tax liability attributable to the taxpayer's Rhode Island income ("piggyback tax"). In FY 2002, the tax structure was changed to offset the tax rate and bracket changes passed by the federal government in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). Rhode Island's personal income tax system now applies to Rhode Island taxable income in such a manner so as to compute the tax that would otherwise have been due under the "piggyback tax" pre-EGTRRA. A resident's Rhode Island taxable income is the same as his or her federal taxable income, subject to specified modifications. The most significant modification provides for eliminating capital gains taxes on assets held more than five years. This modification takes effect on January 1, 2007. Current law allows the Tax Administrator to modify income tax rates as necessary when the General Assembly is not in session to adjust for federal tax law changes to ensure maintenance of the revenue base upon which appropriations are made.

A nonresident's Rhode Island taxable income is equal to the nonresident's Rhode Island income less deductions (including such taxpayer's share of the income and deductions of any partnership, trust, estate, electing small business corporations, or domestic international sales corporation). In addition, a non-resident's Rhode Island income is subject to specified modifications that are included in computing his or her federal adjusted gross income. Other modifications are derived from or connected with any property located or deemed to be located in the State and any income producing activity or occupation carried on in the State.

In the 1997 Session, the General Assembly adopted then Governor Almond's proposal to lower Rhode Island personal income tax rates over a five-year period beginning with the 1998 tax year. Thus, on January 1, 1998, the personal income tax rate was reduced from 27.5 percent of federal tax liability to 27.0 percent of the same. Effective January 1, 1999 the personal income tax rate was lowered to 26.5 percent of federal tax liability. On January 1, 2000, it was lowered to 26.0 percent of federal tax liability and effective January 1, 2001 the personal income tax rate was reduced to 25.5 percent of the same. In tax year 2002, Rhode Island's personal income tax rate was lowered to 25.0 percent and applied to Rhode Island taxable income rather than federal tax liability. Under the new tax structure, Rhode Island income tax rates range from 3.75 percent to 9.9 percent depending on income bracket.

In addition to the changes in Rhode Island personal income tax rates, the 1997 General Assembly passed legislation that increased the Investment Tax Credit from 4.0 percent to 10.0 percent effective January 1, 1998. It also increased the Research and Development Tax Credit from 5.0 percent to 22.5 percent beginning in tax year 1998.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the personal income tax liability of a taxpayer.

For the tax year beginning January 1, 2003, several changes to the State's personal income tax were enacted in order to hold the State harmless relative to the passage at the federal level of the Job Creation and Worker Assistance Act of 2002 (JCWAA). In particular, a provision was enacted that "provides that the five (5) year carry back provision of a net operating loss provided by" the JCWAA for federal tax purposes shall not be allowed for Rhode Island tax purposes. In addition, state legislative action eliminated the current two year carry back provision for net operating losses and allowed the use of net operating losses only "on a carry forward basis for the number of succeeding taxable years allowed under section 172 of Internal Revenue Code [26 U.S.C.]". These changes to the State's tax code primarily impact subchapter S Corporation filers.

In the 2003 Session, the General Assembly enacted legislation to hold the State's personal income tax harmless with respect to the provisions of the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). Under the legislation, Rhode Island's State tax code with respect to personal income does not allow for the Federal elimination of the marriage penalty, the increase in exemptions for the alternative minimum tax, or the change in depreciation of assets under section 179 of the Internal Revenue Code or otherwise.

In the 2004 Session, the General Assembly approved several of Governor Carcieri's initiatives with regard to the collection of taxes already owed to the State. In particular, the General Assembly passed legislation that requires a letter of good standing from the Division of Taxation prior to the issuance or renewal of a professional license or a motor vehicle operator's license or registration. In addition, the Governor proposed, and the General Assembly concurred, to repeal several tax credits that were not cost effective. The tax credits repealed included ones for the costs incurred to receive certification from the International Standards Organization (ISO), for the loan guaranty fees charged by the Small Business Administration, and for donations to public projects and interest income earned on loans to businesses located in state designated enterprise zones. The 2004 General Assembly also reduced the tax credit earned for wages paid to new hires by businesses in a state designated enterprise zone that meet specified job growth criteria. Further, the General Assembly agreed with the Governor's recommendation to require the withholding of income tax against all distributions to nonresident shareholders in Rhode Island subchapter S corporations and limited liability companies. Finally, the General Assembly instituted a Rhode Island refundable earned income tax credit equal to 5.0 percent of the federal refundable earned income tax credit.

In the 2005 Session, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 5.0 percent to 10.0 percent. In addition, the General Assembly concurred with Governor Carcieri's proposed repeal of the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the Governor's initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond.

The Rhode Island personal income tax accounted for approximately \$870.2 million, or 31.4 percent, of the State's FY 2004 total general revenues. FY 2004 personal income tax collections rose not only in dollar amount but also in share of total general revenues from FY 2003.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing; (c) prescription and patent medicines; (d) fuel used in the heating of homes and residential premises; (e) domestic water usage; (f) gasoline and other motor fuels otherwise specifically taxed; (g) sales of tangible property and public utility services when the property or service becomes a component part of a manufactured product for resale, or when the property or service is consumed directly in the process of manufacturing or processing products for resale and such consumption occurs within one year from the date such property is first used in such production; (h) tools, dies and molds and machinery and equipment, including replacement parts thereof, used directly and exclusively in an industrial plant in the actual manufacture, conversion or processing of tangible personal property to be sold; (i) sales of air and water pollution control equipment for installation pursuant to an order by the state Director of Environmental Management; and (j) sales of boats or vessels.

The State sales and use tax rate is 7.0 percent and is imposed upon retailers' gross receipts from taxable sales. From the beginning of FY 1992 until August 2000, the State had dedicated six tenths of one cent of the sales tax to pay the debt service on the bonds issued by the Rhode Island Depositors Economic Protection Corporation (DEPCO). The bond proceeds were used to pay off uninsured depositors of the State's failed credit unions. Effective August 1, 2000, DEPCO defeased its outstanding debt. As a result, since August 1, 2000, the State's General Fund has received all of the State sales and use tax revenues collected from the imposition of the 7.0 percent sales and use tax.

In May 2000 the Rhode Island Economic Development Corporation issued revenue note obligations in the amount of \$40,820,000 to finance a portion of the costs of the Providence Place Mall. The debt service costs of this financing is supported by two-thirds of the sales tax revenues generated at the Mall, subject to a cap. In years 1–5 of the Mall's operation the cap is \$3.68 million while in years 6–20 of the Mall's operation it is \$3.56 million. These provisions are delineated in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the 1996 General Assembly and Public Investment and HOV Agreement. It is expected that the sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax revenues generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax revenues generated at the Mall are not sufficient. To date, the sales tax revenue generated by the Providence Place Mall has been more than sufficient to meet these obligations.

In the 2003 Session, the General Assembly passed a one percent local meals and beverage sales tax. Similarly, in the 2004 Session, the General Assembly passed a one percent local hotel and other public accommodation rentals sales tax. The revenues from both of these local taxes accrue to the local governments in which the meals and beverage sale or the accommodation rental took place and are not part of the sales and use tax revenues reported herein. Also in the 2004 Session, the General Assembly exempted, with the acquiescence of the Governor, the sale of aircraft or aircraft parts from the sales and use tax effective January 1, 2005.

The sales and use tax accounted for approximately \$822.9 million, or 29.7 percent, of the State's FY 2004 total general revenues. FY 2004 final sales and use tax collections rose in dollar terms and also in share of total general revenues from FY 2003.

Business Corporation Tax. The business corporation tax is imposed on corporations deriving income from sources within the State or engaging in activities for the purpose of profit or gain. The tax has been set at a rate of 9.0 percent since July of 1989. The tax was modified in 1997 by providing for enhanced credits. Specifically, the Investment Tax Credit was increased from 4.0 percent to 10.0 percent for machinery and equipment expenditures and the Research and Development Tax Credit for qualified research expenses was increased from 5.0 percent to 22.5 percent, both effective January 1, 1998.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the business corporations tax liability of a taxpayer.

In 2002, legislation was enacted disallowing for Rhode Island tax purposes the bonus depreciation provided by JCWAA. In essence, the General Assembly de-coupled Rhode Island's asset depreciation schedule as provided for in Chapters 11, 13 and 30 of Title 44 from the federal asset depreciation schedule for purposes of applying the bonus depreciation mentioned above. The impact of this change primarily affects C Corporation and subchapter S Corporation tax filers. In 2003, legislation was again enacted as part of the annual appropriations act to disallow for Rhode Island tax purposes the change in the depreciation of assets provided by JGTRRA.

Corporations dealing in securities on their own behalf, whose gross receipts from such activities amount to at least 90.0 percent of their total gross receipts, have been exempt from the net worth computation but are required to pay the 9.0 percent income tax. Regulated investment companies and real estate investment trusts and personal holding companies pay a tax at the rate of 10 cents per \$100 of gross income or \$100, whichever is greater. Such corporate security dealers, investment companies, investment trusts and personal holding companies are allowed to deduct from net income 50.0 percent of the excess of capital gains over capital losses realized during the taxable year when computing the tax.

In the 2003 Session, the General Assembly amended the multi-state apportionment formula for manufacturers to allow them to elect to use a double weighted sales factor apportionment if doing so would provide a favorable treatment of net income for tax purposes. This amendment was phased in over a two-year period becoming fully effective on January 1, 2004.

In the 2004 Session, the General Assembly increased the corporate minimum and franchise taxes from \$250 to \$500 effective January 1, 2004. In addition, the General Assembly applied the repeal and reduction of the tax credits discussed in *Personal Income Tax* to the business corporations tax, also effective January 1, 2004.

The business corporation tax accounted for approximately \$76.0 million, or 2.7 percent, of the State's FY 2004 total general revenues. FY 2004 final business corporations tax collections rose both in dollar terms and in the share of total general revenues from FY 2003.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the mentally retarded. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents.

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied.

The health care provider assessment accounted for approximately \$40.3 million, or 1.5 percent, of the State's FY 2004 total general revenues. Both the dollar amount and the share of total general revenues increased for the health care provider assessment between FY 2004 and FY 2003.

Taxes on Public Service Corporations. A tax ranging from 1.25 percent to 8.0 percent of gross earnings is assessed annually against any corporation enumerated in Title 44, Chapter 13 of the General Laws, incorporated under the laws of the State or doing business in Rhode Island and meeting the Public Service Corporations test. In the case of corporations whose principal business is manufacturing, selling or distributing currents of electricity, the rate of tax imposed is 4.0 percent. For those corporations manufacturing, selling or distributing illuminating or heating gas, the rate of tax imposed is 3.0 percent of gross earnings. Corporations providing telecommunications services are assessed at a rate of 5.0 percent. However, 100.0 percent of the amounts paid by a corporation to another corporation for connecting fees, switching charges and carrier access charges are excluded from the gross earnings of the paying company. The tangible personal property within the State of telegraph, cable, and telephone corporations used exclusively for the corporate business, is exempt from taxation, subject to certain exceptions.

As noted above in *Personal Income Tax and Business Corporation Tax*, in the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the tax liability of public service corporations.

In addition to the Historic Structures Tax Credit, the 2001 General Assembly enacted a job development tax credit of 0.01 percent for every 50 new jobs created for three years past the elected base year that meet the current criteria for the credit. The current criteria require that the eligible jobs provide 30 hours or more of employment on average per week and pay at least 150 percent of the hourly minimum wage prescribed by state law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained. The job development tax credit is available only to telecommunications companies.

In 2002 legislation was passed that provides for the apportionment of gross earnings from mobile telecommunication services to the State where the customer's primary place of use occurs, as determined in accordance with the federal Mobile Telecommunications Sourcing Act.

The public service corporation tax accounted for approximately \$92.2 million, or 3.3 percent, of the State's FY 2004 total general revenues. Both the dollar amount and the share of total general revenues increased for the public utilities gross earnings tax between FY 2004 and FY 2003.

Tax on Insurance Companies. Each insurance company transacting business in Rhode Island must file a final return each year on or before March 1 and pay a tax of 2.0 percent of its gross premiums. These are premiums on insurance contracts written during the preceding calendar year on Rhode Island businesses. The same tax applies to an out-of-state insurance company, but the tax cannot be less than that which would be levied by the State or foreign country on a similar Rhode Island insurance company or its agent doing business to the same extent in such jurisdictions.

Premiums from marine insurance issued in Rhode Island are exempt from the tax on gross premiums as were the premiums paid to the insurer that maintains the State's workers compensation insurance fund. Nonprofit hospital service corporations are specifically excluded from the insurance companies' tax. Insurance and surety companies are exempt from the business corporations tax and annual franchise tax, but they are subject to provisions concerning any estimated taxes that may be due.

In 1997, the General Assembly increased the investment tax credit for insurance companies from two to four percent of buildings and structural components purchased in Rhode Island and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

In 1999, the General Assembly amended the investment tax credit provisions to extend the 10.0 percent credit to property located in Rhode Island no matter how the property was acquired by property and casualty insurance companies. This made the credit applicable to equipment transferred into the State by companies from other states.

As noted above, in the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the gross premiums tax of insurance companies.

In 2002 legislation was passed making the insured liable for the 3.0 percent gross premiums tax on surplus lines of insurance if the insured purchases or renews surplus lines insurance coverage with an insurer not licensed in the State.

In the 2005 Session, the General Assembly concurred with the Governor Carcieri's proposal to eliminate the exemption from the insurance companies gross premiums tax for the insurer that maintains the State's workers compensation insurance fund. The Governor's original proposal had an effective date of January 1, 2006. The General Assembly modified this to July 1, 2005.

The insurance companies' tax accounted for approximately \$43.4 million, or 1.6 percent, of the State's FY 2004 total general revenues. Both the dollar amount and the share of total general revenues decreased for the tax on insurance companies between FY 2004 and FY 2003.

Financial Institutions Excise Tax. For the privilege of existing as a banking institution during any part of the year, each State bank, trust company, or loan and investment company in the State must annually pay an excise tax. This excise tax is measured as the higher of either: (1) 9.0 percent of its net income of the preceding year, or (2) \$2.50 per \$10,000 or a fraction thereof of its authorized capital stock as of the last day of the preceding calendar year. A national bank within the State must only pay the excise tax measured by option (1) above. The minimum tax payable is \$100. Mutual savings banks and building and loan associations are subject to the tax, effective January 1, 1998.

The 1994 General Assembly passed legislation creating passive investment companies and exempting said companies from the financial institutions excise tax. A passive investment company is one with five or more full-time equivalent employees that maintain offices in Rhode Island and whose activities are limited to the maintenance and

management of intangible investments such as securities, accounts receivable, patents, trademarks and similar intellectual properties

In 1996, the General Assembly enacted the Jobs Development Act. As subsequently amended, it currently provides for rate reductions of one-quarter of one percent for each 50 new jobs created by eligible firms for three years past the elected base year. A qualifying job must be a 30-hour per week, on average, position that pays at least 150 percent of the prevailing hourly minimum wage as determined by state law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained.

In 1997, the General Assembly increased the investment tax credit for financial institutions from two to four percent of purchased buildings and structural components and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

As noted above, in the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the excise tax owed by financial institutions.

The financial institutions tax accounted for approximately \$(7.3 million), or -0.3 percent, of the State's FY 2004 total general revenues. Both the dollar amount and the share of total general revenues decreased for the financial institutions excise tax between FY 2004 and FY 2003.

Banking Institutions Interest Bearing Deposits Tax. The bank interest bearing deposits tax was eliminated for state and national banks beginning January 1, 1998 and thereafter. A tax rate on deposits held by credit unions continues to apply with a rate of .0348 cents for each \$100 for institutions with over \$150 million in deposits and a rate of .0313 cents for each \$100 applying to credit unions with less than \$150 million in deposits.

The bank deposits tax accounted for approximately \$1.6 million, or 0.1 percent, of the State's FY 2004 total general revenues. The dollar amount of bank deposits taxes was less in FY 2004 vs. FY 2003 while its share of total general revenues remained stable.

Estate Tax. For decedents whose deaths occurred before January 1, 2002, the estate tax will equal the applicable credit allowable under federal estate tax law. For decedents whose deaths occur on or after January 1, 2002, the estate tax will equal the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2002. Also, the State acted to ensure that any increase in the unified credit provided by 26 U.S.C., subsection 2010 in effect on or after January 1, 2002 shall not apply for Rhode Island estate tax purposes. The time period for filing a return is nine months from date of death.

The estate tax accounted for approximately \$23.9 million, or 0.9 percent, of the State's FY 2004 total general revenues. The dollar amount of estate taxes was less in FY 2004 vs. FY 2003 while its share of total general revenues remained stable.

Cigarette Tax. The State's cigarette tax is comprised of a cigarette stamp tax, a cigarette floor stock tax, and a tax on the wholesale price of cigars, pipe tobacco, etc. The cigarette stamp tax generates well over 98 percent of the total cigarette taxes collected by the state.

The cigarette stamp tax has increased consistently over the last several years. In FY 1998 the cigarette excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette excise tax rate was increased to \$1.00 per pack on July 1, 2001 and then to a \$1.32 a pack effective May 1, 2002. On July 1, 2003, the cigarette excise tax rate was increased to \$1.71 a pack. Finally, on July 1, 2004, it was increased by 75 cents to \$2.46 per pack of 20 cigarettes. The tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past five years, although not

as frequently as the cigarette stamp tax. On July 1, 2001, the other tobacco products tax was increased from 20.0 percent of the wholesale price of other tobacco products to 30.0 percent of the same. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products.

In the 2005 Session, the General Assembly concurred with Governor Carcieri's proposal to require cigarette wholesale distributors to pay the retail sales tax on cigarettes at the time that cigarette excise tax stamps are purchased. The amount of the retail sales tax to be prepaid is based on the state minimum price of a pack of major brand cigarettes.

The cigarette tax accounted for approximately \$117.3 million, or 4.2 percent, of the State's FY 2004 total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2004 and FY 2003.

Motor Fuel Tax. The tax is due and is not refundable on the sale of all fuels used or suitable for operating internal combustion engines other than fuel used: (a) for commercial fishing and other marine purposes other than operating pleasure craft; (b) in engines, tractors, or motor vehicles not registered for use or used on public highways by lumbermen, water well drillers and farmers; (c) for the operation of airplanes; (d) by manufacturers who use diesel engine fuel for the manufacture of power and who use fuels other than gasoline and diesel engine fuel as industrial raw material; and (e) for municipalities and sewer commissions using fuel in the operation of vehicles not registered for use on public highways.

The State has pursued a long-term plan to dedicate all of the motor fuel tax receipts to transportation-related projects and operations. Prior to the convening of the 2002 General Assembly, all motor fuel tax proceeds were to be allocated for transportation purposes in FY 2003. The 2002 General Assembly, in Article 29 of the FY 2003 Appropriations Act, however, delayed the transfer of the final 0.25 cents from the General Fund to the Department of Transportation until FY 2004. In addition, the General Assembly increased the State's motor fuel tax from \$0.28 a gallon to \$0.30 a gallon effective July 1, 2002. This 2.0 cents a gallon increase in the gas tax was to remain with the General Fund for all future tax years. The allocation of motor fuel revenues was changed again by action of the 2003 General Assembly (see Transportation) such that for FY 2004 1.4 cents of motor fuel revenues will be available for the General Fund. In 2004, at the request of the Governor and with the concurrence of the General Assembly, the 2.0 cents of the per gallon motor fuel tax was again dedicated to the General Fund effective March 1, 2004. Finally, in the 2005 Session, the General Assembly with the concurrence of Governor Carcieri transferred 1.0 cent of the motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

The transfer of the motor fuel tax to the General Fund accounted for approximately \$7.8 million, or 0.3 percent, of the State's FY 2004 total general revenues. Both the dollar amount of the motor fuel tax transfer and its share of total general revenues decreased between FY 2004 and FY 2003. It should be noted that \$14.3 million of FY 2003 motor fuel taxes collected represented the Department of Transportation's repayment of the debt service savings it reaped from the defeasance of some of its outstanding debt via the securitization of the State's future tobacco Master Settlement Agreement payments.

Other Taxes. In addition to the above described taxes, the State imposes various fees, taxes and excises for the sale of liquor and other alcoholic beverages, the registration of motor vehicles, the operation of pari-mutuel betting, and the conveyance of real estate.

In the 2002 Session, the General Assembly increased the State's real estate conveyance tax from \$1.40 per \$500 of valuation to \$2.00 per \$500 of valuation. Of this total assessment, the local municipality in which the sale of real estate took place retains \$1.10. The remaining \$0.90 is remitted to the state.

In the 2004 Session, the General Assembly repealed the State's prohibition on Sunday alcohol sales. This change allows package stores to sell beer, wine, and spirits between the hours of 12:00 p.m. and 6:00 p.m. on Sundays. It is important to note that State sales and use tax is applied to the final sale price of all beer, wine, and spirits sales in the State.

In the 2005 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license fees effective July 1, 2005.

Other taxes accounted for approximately \$75.3 million, or 2.7 percent, of the State's FY 2004 total general revenues. Both the dollar amount of other taxes and their share of total general revenues increased between FY 2004 and FY 2003.

Departmental Receipts. The largest category of departmental receipts is the group defined as licenses and fees. This category's prominence in departmental receipts is due largely to the assessment of the hospital licensing fee beginning in FY 1995. Other significant license and fees revenues are derived from the registration of securities, motor vehicle title fees and various professional licenses.

The hospital licensing fee was first enacted in 1994 and yielded \$77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of \$37.4 million annually for FY 1998, FY 1999 and FY 2000. The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospital's 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospital's 1995 base year. The total impact of these changes was a revenue yield of \$65.7 million in FY 2001. The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospital's 1999 base year, yielding \$56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospital's 2000 base year. For FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. Finally, in the 2004 Session, the FY 2005 rate was set at 3.14 percent of net patient service revenues generated in the 2003 base year.

In the 2005 Session, the Governor proposed increasing the hospital licensing fee to 3.45 percent of 2003 net patient revenues. The General Assembly increased this rate further to 3.56 percent of net patient service revenues and advanced the base year to 2004. In addition, the General Assembly changed the fee assessed for processing Historic Preservation Tax Credit certificates from a flat fee of between \$500 and \$2,000 to 2.25 percent of total qualified rehabilitation costs effective August 1, 2005.

A second category of departmental receipts is sales and services, which includes disproportionate share revenues collected on behalf of the State hospitals as well as revenues derived from the sale of vanity license plates. A third category of departmental receipts is fines and penalties such as interest and penalties on overdue taxes. Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances as well as Child Support payments.

Departmental Receipts were approximately \$285.0 million, or 10.3 percent, of the State's total general revenue in FY 2004. FY 2004 departmental receipts fell on both a nominal basis and as a share of total general revenues when compared to FY 2003.

Other Sources. The largest component of Other Sources is the transfer from the Rhode Island Lottery Commission. The State Lottery Fund was created in 1974 for the receipt and disbursement of revenues of the State Lottery Commission from sales of lottery tickets and license fees. The monies in the fund are allotted for: (1) establishing a prize fund from which payments of the prize are disbursed to holders of winning lottery tickets, the total of which prize payments equals, as nearly as is practicable, 45 percent of the total revenue accruing from the sale of lottery tickets; (2) payment of expenses incurred by the Commission in the operation of the State lotteries; and (3) payment to the State's General Fund of all revenues remaining in the State Lottery fund, provided that the amount to be transferred into the General Fund must equal not less than 30 percent of the total revenue received and accrued from the sale of lottery tickets plus any other income earned from the lottery.

The FY 2001 Appropriations Act increased the allowable payout percentages for certain lottery and keno games, and also redistributed net terminal income (NTI) from video lottery games, resulting in a greater portion of net terminal income being retained by the State. The FY 2003 Appropriations Act further redistributed NTI from video lottery games.

During the 2003 session, the General Assembly enacted legislation that increased the State's share of video lottery NTI. This was done by reducing the share of NTI paid to the pari-mutuel facilities that house the video lottery terminals (VLTs), lowering the allocation of NTI to the dog kennel owners at Lincoln Park, and cutting the payments to the providers of the video lottery games.

In the 2004 Session, the General Assembly again enacted legislation that increased the State's share of VLT NTI. In this case, the percentage of Lincoln Park net terminal income that was allocated to the dog kennel owners was eliminated and split between the State General Fund, Lincoln Park, and the Town of Lincoln.

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Lincoln Park and 800 at Newport Grand), provided that the facilities invest \$150.0 million in structural and operational upgrades and expansions within the next three years (\$125.0 million at Lincoln Park and \$20.0 million at Newport Grand). These master contracts freeze the share of video lottery NTI that is allocated to each facility at 26.0 percent each.

Lottery transfers to the General Fund totaled \$281.1 million, which accounted for 10.2 percent of the State's total general revenues in FY 2004. Both the dollar amount of the lottery transfer and its share of total general revenues increased between FY 2004 and FY 2003.

The next largest component of Other Sources is the Other Miscellaneous category. This category includes the State's Tobacco Master Settlement Agreement (MSA) payments as well as operating transfers to the General Fund from the proceeds of the State's securitization of its future tobacco MSA payments. The former totaled \$52.7 million and the later \$113.5 million for a total of \$166.2 million in tobacco settlement monies utilized in FY 2003. In FY 2004, tobacco Master Settlement Agreement payments totaled \$453,661 while tobacco securitization proceeds were \$1.45 million, or a total of \$1.9 million in tobacco settlement monies.

The total amount of Other Miscellaneous monies received was approximately \$19.7 million, which accounted for 0.7 percent of the State's preliminary FY 2004 total general revenues. For FY 2003, these amounts were \$184.1 million and 6.7 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the general fund. As noted above this amount was \$7.8 million in FY 2004.

The Unclaimed Property Transfer reflects funds that have escheated to the State. They include unclaimed items such as bank deposits, funds held by life insurance companies, deposits and refunds held by utilities, dividends, and property held by courts and public agencies. The General Treasurer deposits escheated funds into the general fund, with deductions made for administrative costs.

In the 2003 Session, the General Assembly passed legislation allowing the Office of the General Treasurer to decrease the holding period for proceeds received from the demutualization of insurance companies. In the 2004 Session, the General Assembly passed legislation reducing the holding period for escheated stock certificates to one year.

Unclaimed property transfers totaled \$17.0 million in FY 2004 and accounted for 0.6 percent of the State's total general revenues for FY 2004. Both the dollar amount of the unclaimed property transfer and its share of total general revenues increased between FY 2004 and FY 2003.

Restricted Receipts. In FY 2004, the State expended \$140.7 million that was received in restricted receipts, excluding transfers into the General Fund. These expenditures reflect various dedicated fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

Federal Receipts: In FY 2004, the State expended \$1.835 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), Temporary Assistance to Needy Families (TANF), and State Children's Health Insurance Programs – SCHIP (Title

XXI). The federal participatory rates for Titles XIX and XXI are recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. The federal match rate was 55.4 percent effective October 1, 2002 and was increased to 58.35 percent in April 2003 due to the passage of the Jobs and Growth Tax Relief Program. Effective October 1, 2004 to September 30, 2005, the rate is 55.38 percent.

ECONOMIC FORECAST

This section describes the economic forecast used as input for the Revenue Estimating Conference's consensus revenue estimates. For historical information, please refer to Exhibit B.

The statutes governing the Revenue Estimating Conference were amended during the 1997 and 1998 legislative sessions. Beginning in Fiscal Year 1999, the statute requires that the principal members (the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor) "shall adopt a consensus forecast upon which to base revenue estimates" (R.I.G.L. § 35-16-5 (e)).

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its May 2005 meeting, forecasts were presented by *Economy.com* and *Global Insight*. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

Due to the Rhode Island Division of Taxation's procurement of an updated personal income tax simulation model in 2001, additional economic variables needed to be forecast at the November 2001 Conference and all Revenue Estimating Conferences thereafter. Thus, at the May 2005 Revenue Estimating Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, farm income, non-farm business income, dividends, interest and rent, total transfer payments, the unemployment rate, the U.S. consumer price index, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables was expanded to include the relevant calendar years and extended to cover the period from 2001 through 2013.

During the May 2005 Conference, as compared to the consensus economic forecast adopted at the November 2004 Revenue Estimating Conference, *Economy.com* shifted out its forecast for Rhode Island non-farm employment growth from FY 2005 to FY 2006. That is, *Economy.com* reduced its forecast for RI non-farm employment growth by 34 basis points in FY 2005, from 1.42 percent to 1.08 percent. In FY 2006, *Economy.com* increased its forecast of non-farm employment by 9 basis points from 1.75 percent to 1.84 percent. *Global Insight* also revised its FY 2005 estimate for RI non-farm employment growth down by 0.34 percent from 1.30 percent to 0.96 percent. In FY 2006, *Global Insight* increased its forecast of non-farm employment of 0.22 percent. In addition, *Economy.com* increased its estimate for RI non-farm employment growth in the FY 2007 – FY 2009 by between 13 and 26 basis points but decreased it every year for the FY 2010–FY 2013 period by 5 to 10 basis points. *Global Insight's* forecast was similar in its adjustments; despite increasing RI non-farm employment growth from FY 2007 – FY 2009 by 13 to 30 basis points, a reduction was made in the FY 2010 – FY 2013 period of between 2 and 19 basis points each year. In May 2005, *Economy.com* has forecasted RI non-farm employment growth at an average of 42 basis points higher than *Global Insight* for the period FY 2005 – FY 2013. The stark differences in the growth levels remained from the November 2004 Conference, at which time each forecaster thought differently about the effects of Massachusetts economy's performance and the interaction between it and the Rhode Island economy. Faced with such divergent views on growth levels and similar views on current adjustments, the conferees adopted a growth forecast for RI non-farm employment that was a 41 and 5 basis point reduction from the November 2004 Consensus Economic Forecast for FY 2005 and FY 2006 respectively. In addition, a 5 basis point increase for FY 2007, a 5 basis point decrease for FY 2008, and the preservation of the November 2004 adopted forecast for the FY 2009–FY 2013 period were agreed upon.

As determined by the May 2005 Revenue Estimating Conference, Rhode Island's labor market has been strong, with total non-farm employment growing from 477.9 thousand jobs in FY 2002 to 486.5 thousand jobs in FY 2004. This gain of approximately 8,600 jobs is 200 more than forecasted in November 2004. In addition, the May 2005 REC forecasted job growth in FY 2005 of approximately 5,300 jobs, or 1.1 percent, and forecasted job growth of 7,300 jobs, or 1.5 percent, in non-farm employment in FY 2006. These adopted growth rates represent a revision downward from the November 2004 Conference estimates of 7,300 jobs, or 1.5 percent growth, in FY 2005 and 7,600 jobs, or 1.5 percent growth, in FY 2006. Rhode Island's long-run steady state non-farm employment growth rate is estimated at 0.8 percent, however, the principals of the May 2005 REC forecast that the State will be able to exceed that level in FY 2007 by 0.4 percentage points. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

The May 2005 Conference forecasted that personal income will grow steadily over the FY 2005–FY 2013 period, with average growth of approximately 4.4 percent over these fiscal years. The May 2005 Conference forecasts consumer price inflation to remain at or below 2.5 percent for the FY 2005–FY 2013 period, an average of 0.3 percent higher annually than forecasted in November 2004. In addition, Rhode Island’s unemployment rate is forecasted to drop to 4.8 percent in FY 2005 from 5.4 percent in FY 2004 and then remain stable at 4.4 percent for the period FY 2006 – FY 2008. The unemployment rate is then expected to fall to 4.3 percent in FY 2009 and to attain its steady state equilibrium of 4.2 from FY 2010 through FY 2013.

The consensus economic forecast for the fiscal years 2003 to 2006 agreed upon by the conferees at the May 2005 Revenue Estimating Conference is shown in the following table. This consensus economic forecast reflects the belief that the economic recovery in Rhode Island will be strong but with slightly less robust growth in employment and stronger growth in personal income in the short term than was predicted at the November 2004 Revenue Estimating Conference.

The May 2005 Consensus Economic Forecast				
Rates of Growth	FY 2003	FY 2004	FY 2005	FY 2006
Total Employment	0.7%	1.1%	1.1%	1.5%
Personal Income	2.9%	4.8%	5.1%	4.7%
Wage and Salary Income	4.5%	5.0%	4.9%	5.1%
Farm Income	0.0%	0.0%	0.0%	0.0%
Non-Farm Business Income	2.7%	9.5%	7.2%	6.2%
Dividends, Interest and Rent	-4.7%	0.8%	4.6%	4.0%
Total Transfer Payments	3.6%	4.3%	4.8%	4.4%
Nominal Levels				
U.S. CPI-U	2.2%	2.2%	2.7%	2.5%
Unemployment Rate	5.3%	5.4%	4.8%	4.4%
Ten Year Treasury Notes	4.0%	4.3%	4.5%	5.3%
Three Month Treasury Bills	1.3%	1.0%	2.3%	3.9 %

REVENUE ESTIMATES

Revenue estimates are predicated upon the consensus arrived at the May 2005 Revenue Estimating Conference and the changes to the general revenues reflected in the FY 2006 enacted budget. The Revenue Estimating Conference is required by law to convene at least twice annually to adopt a consensus forecast of general revenues for the current year and the budget year, based upon current law, collection trends, and the Consensus Economic Forecast.

The May 2005 Revenue Estimating Conference estimated general revenues of \$3.077 billion for FY 2006. The FY 2006 budget enacted by the General Assembly estimated general revenues of \$3.166 billion, including \$88.1 million in changes to the adopted general revenue estimates. Based on the General Assembly’s enacted FY 2006 revenue estimates, growth in general revenues in FY 2006 are estimated to be 4.4 percent more than the FY 2005 final enacted general revenue estimates of \$3.033 billion.

FY 2006 Enacted Revenue Estimate

The May 2005 Revenue Estimating Conference estimated general revenues of \$3.077 billion in FY 2006, a 4.4 percent increase from the FY 2006 estimate adopted at the November 2004 REC. The General Assembly made changes to the adopted estimates in the enacted budget passed on June 30, 2005 that resulted in \$88.1 million in new revenues. Enacted revenues for FY 2006 include a \$92.1 million increase in tax collections over enacted FY 2005 tax collections, or growth of 3.9 percent. The overwhelming majority of the enacted increase in tax collections in FY 2006 is due to higher enacted personal income and sales and use tax estimates. The increase in Departmental Receipts in the enacted FY 2006 budget is

\$17.9 million, or 6.1 percent, more than enacted FY 2005 collections. Other General Revenue Sources are estimated to be \$22.3 million greater than enacted FY 2005 estimates, an increase of 6.1 percent. All of this increase is accounted for by a higher enacted FY 2006 revenue estimate for the lottery transfer to the general fund.

The largest source of FY 2006 enacted general revenues is Personal Income Tax payments, which are estimated to be \$1.033 billion, an increase of 5.4 percent over final FY 2005 enacted collections. Rhode Island's personal income tax rate remains unchanged from FY 2005 at 25.0 percent of Rhode Island taxable income. The increased Investment Tax Credit and Research and Development Tax Credits also continue to impact tax collections in FY 2006, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. The Historic Preservation Tax Credits were estimated to decrease personal income tax collections in FY 2006. The degree to which Historic Preservation Tax Credits will affect FY 2006 personal income taxes was not agreed upon at the May 2005 Conference. Personal income taxes are expected to comprise 32.6 percent of enacted general revenues collected in FY 2006.

The Sales and Use Tax is expected to show gains in FY 2006 enacted collections of \$38.8 million from final FY 2005 enacted collections. Sales and use taxes represent 28.0 percent of enacted general revenues in FY 2006. Rhode Island sales and use tax collections are expected to increase in FY 2006 due primarily to the strength of the Rhode Island housing market and continued improvement in the State's economy. Rising fuel costs and upward interest rate adjustments, however, are expected to detract from sales tax collections in FY 2006. Anticipated collections in FY 2006 are \$887.9 million, reflecting a growth rate of 4.6 percent over final FY 2005 enacted collections.

Within the excise tax category, enacted FY 2006 motor vehicle tax collections are estimated to be \$49.2 million, an increase of 5.8 percent over final FY 2005 enacted collections. The enacted FY 2006 motor vehicle tax collections include \$1.5 million of increased motor vehicle registration and operator license fees proposed by the Governor and adopted by the General Assembly. The enacted FY 2006 motor fuel tax estimate of \$1.0 million is the same as the final FY 2005 enacted estimate. The enacted FY 2006 cigarette tax estimate of \$126.3 million is a decrease of \$10.4 million, or 7.6 percent, from the final FY 2005 enacted estimate. The final FY 2005 enacted estimate incorporated the 2004 General Assembly's acceptance of the Governor's proposed increase in the cigarette tax from \$1.71 per pack to \$2.46 per pack effective July 1, 2004. For FY 2006, neither the Governor nor the General Assembly increased the State's cigarette tax. The General Assembly did, however, increase the tax on the wholesale price of other tobacco products from 30.0 percent to 40.0 percent. This tax increase is estimated to generate an additional \$700,000 of cigarette tax revenues in the enacted FY 2006 budget. The excise tax on alcohol is enacted at \$11.4 million in FY 2006, an increase of 3.6 percent from the \$11.0 million final FY 2005 enacted estimate.

The enacted FY 2006 estimate of general business taxes projects positive growth over final FY 2005 enacted collections in nearly all categories, the exception being business corporations taxes which are projected to decline by \$2.5 million. The enacted FY 2006 estimate for the public utilities gross earnings tax of \$90.0 million reflects an increase of \$1.0 million from the final FY 2005 enacted estimate. The enacted FY 2006 estimate reflects growth of 1.1 percent from final FY 2005 enacted collections. The enacted estimate for FY 2006 insurance companies taxes includes an unspecified decrease in collections due to the Historic Preservation Tax Credits. In FY 2004, Historic Preservation Tax Credit totals for insurance companies taxes were \$3.1 million. In addition, the 2005 General Assembly agreed with the Governor's proposal to repeal Beacon Mutual Insurance Company's exemption from the premiums tax. Beacon Mutual is the state's largest workers compensation insurer with a 75.0 percent market share based on premiums received. The impact of this repeal was to increase enacted FY 2006 insurance companies taxes by \$5.7 million. The FY 2006 enacted estimate for business corporations taxes is \$109.5 million, or 2.2 percent below final FY 2005 enacted collections. This revised estimate includes an undetermined amount of Historic Preservation Tax Credits that will be taken in FY 2006. In FY 2004, Historic Preservation Tax Credits taken by business corporations tax filers totaled \$25,000.

The Financial Institutions taxes estimate enacted for FY 2006 has been revised upward by \$1.2 million from the final FY 2005 enacted estimate. The primary reason for the upward revision in the Financial Institutions tax was the fact that a large financial institution in the State took a tax year 2002 refund of \$10.8 million in November 2003. At this time, although an additional \$10.7 million of tax year 2003 refundable tax payments are still owed this financial institution, it has been intimated that this institution will not request a payment of this refund in the near future. The Health Care Provider Assessment was enacted to yield \$49.3 million in FY 2006, an increase of \$1.3 million, or 2.7 percent, from the \$48.0 million in final FY 2005 enacted collections.

Inheritance and Gift taxes were enacted in FY 2006 at \$31.7 million, the exact same level as was adopted in the final FY 2005 enacted estimate. Enacted FY 2006 Racing and Athletics taxes were revised downward by \$180,000 from the final FY 2005 enacted estimate of \$4.2 million. Realty Transfer taxes were enacted at \$14.9 million for FY 2006, an increase of \$400,000 from the final FY 2005 enacted estimate of \$14.5 million. This higher enacted level is attributable to the robust Rhode Island housing market, which was one of the strongest markets in the country during 2004 and the first half of 2005. The enacted FY 2006 estimate is 2.8 percent greater than final FY 2005 enacted collections.

The enacted FY 2006 estimate for Departmental Receipts is \$312.6 million, an increase of \$17.9 million, or 6.1 percent, from final FY 2005 enacted collections. The enacted FY 2006 Departmental Receipts estimate includes increased hospital licensing fee collections of \$6.4 million, increased collections of the courts' outstanding receivable of \$7.7 million, and \$3.6 million from changing the fee for processing historic preservation tax credits (HPTC) from a flat \$500 to \$2,000 depending on the total qualified rehabilitation costs (QRC) of the project to 2.25 percent of the total QRC of a project. This new form of the HPTC processing fee applies to projects completed after July 31, 2005.

Other Sources receipts were enacted at \$384.4 million in FY 2006, an increase of \$22.3 million, or 6.1 percent, from the final FY 2005 enacted estimate of \$362.1 million. The major components in this category include other miscellaneous revenues, as well as transfers from the State Lottery Fund, unclaimed property and gas tax transfers from the Intermodal Surface Transportation Fund (ISTF). The enacted FY 2006 estimate for unclaimed property is \$5.6 million less than that for final FY 2005 enacted. This decrease is a result of the purchase of Fleet Boston Financial by Bank of America and the resultant change in ownership. Bank of America is a North Carolina chartered bank holding company and therefore North Carolina will receive all escheated unclaimed property from all states in which Bank of America does business. Fleet Boston Financial was a Rhode Island chartered bank holding company and the State received escheated Fleet Boston Financial monies in the past. Other Sources were increased by \$69,633 from the FY 2005 Enacted Budget. Other Sources are enacted to decrease by \$8.0 million in FY 2006 from final FY 2005 enacted. This decline is due to the receipt of \$12.5 million in final payments from debtors of the Depositors Economic Protection Corporation in FY 2005. Transfers from the ISTF are enacted to be \$4.8 million in FY 2006. This total is \$4.6 million less than in final FY 2005 enacted due to the shift of \$0.01 of the \$0.30 per gallon motor fuel tax from the general fund to the Rhode Island Public Transit Authority effective July 1, 2005. The remaining component of Other Sources is enacted to increase in FY 2006 relative to final FY 2005 enacted collections.

Transfers from the State Lottery Fund have been enacted to increase by \$40.5 million in FY 2006 over final FY 2005 enacted transfers. The increase in State Lottery Fund transfers in the FY 2006 enacted budget contains no revenue enhancements from altering the video lottery terminal revenue distribution formula but does rely on the installation of the final 459 authorized video lottery terminals at Lincoln Park and an additional 50 authorized video lottery terminals at Newport Grand, the State's two licensed video lottery retailers. It is important to note that the enacted FY 2006 estimate of the lottery transfer does not include any additional revenues from the master contracts entered into with the owners of Lincoln Park and Newport Grand. Due to the construction covenants in these master contracts, increased revenues from the operation of the additional 2,550 video lottery terminals authorized by the contracts are not expected until FY 2007 at the earliest.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2003 through 2006 and expenditures for the fiscal years 2003 through 2006. General Fund data for FY 2003 and FY 2004 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditures for fiscal year 2005 reflect enacted appropriations adjusted for the changes to appropriations enacted by the General Assembly and signed into law by the Governor. Expenditures for FY 2006 reflect the budget enacted by the General Assembly and signed by the Governor. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources. The expenditure tables restate amounts classified by the Controller as "operating transfers," or amounts received by or transferred to other funds, as expenditures.

General Fund revenues for FY 2003 and FY 2004 reflect the audited actual revenues as reported by the State Controller. FY 2005 revenues reflect preliminary unaudited actual data reported by the State Controller. FY 2006 revenues are predicated upon consensus estimates of the Revenue Estimating Conferences in May 2005, as adjusted by the statutory changes to revenues adopted by the Revenue Estimating Conference which were enacted by the General Assembly. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Recommended

	FY 2003 Actual	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted
Personal Income Tax	\$813,341,218	\$870,203,448	\$978,922,876	\$1,033,494,978
General Business Taxes				
Business Corporations	62,818,292	75,996,096	116,143,553	109,524,714
Public Utilities Gross Earnings	76,134,288	92,209,614	86,357,789	90,000,000
Financial Institutions	9,804,211	(7,296,194)	(1,480,365)	100,000
Insurance Companies	51,287,425	43,418,735	53,333,488	58,078,018
Bank Deposits	1,697,630	1,579,935	1,524,111	1,640,000
Health Care Provider Assessmer	28,140,784	40,317,507	46,827,408	49,300,000
Sales and Use Taxes				
Sales and Use	777,364,781	822,855,222	847,726,627	887,888,065
Motor Vehicle	47,250,900	47,355,716	47,137,097	49,210,699
Motor Fuel	1,022,168	859,502	1,978,991	1,000,000
Cigarettes	94,379,289	117,263,392	136,342,162	126,300,000
Alcohol	10,059,399	10,342,162	10,536,807	11,400,000
Controlled Substances	-	-	-	-
Other Taxes				
Inheritance and Gift	24,351,448	23,904,508	32,980,957	31,700,000
Racing and Athletics	4,939,017	4,587,070	3,990,803	4,020,000
Realty Transfer	9,781,150	13,036,709	14,423,038	14,900,000
Total Taxes	2,012,372,000	2,156,633,422	2,376,745,342	2,468,556,474
Departmental Receipts	290,254,791	285,004,989	267,079,817	312,586,831
Taxes and Departmentals	2,302,626,791	2,441,638,411	2,643,825,159	2,781,143,305
Other Sources				
Gas Tax Transfer	25,506,330	7,760,433	9,022,662	4,760,000
Other Miscellaneous	184,086,402	19,705,661	28,197,313	18,950,000
Lottery	236,540,055	281,141,647	307,540,000	350,500,000
Unclaimed Property	8,458,048	17,042,121	15,617,732	10,199,000
Other Sources	454,590,835	325,649,862	360,377,707	384,409,000
Total General Revenues	\$2,757,217,626	\$2,767,288,273	\$3,004,202,866	\$3,165,552,305

Expenditures from General Revenues

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
General Government				
Administration	\$ 367,405,218	\$ 336,916,344	\$ 416,002,357	\$ 469,270,013
Business Regulation	9,185,949	9,330,043	9,278,429	10,535,244
Labor and Training	6,842,571	7,534,669	7,096,275	7,441,870
Legislature	27,421,875	24,362,256	26,933,113	28,956,307
Lieutenant Governor	795,014	841,746	848,006	917,362
Secretary of State	5,974,313	4,554,708	5,288,648	4,799,470
General Treasurer	3,497,996	2,731,693	3,166,378	2,898,672
Boards for Design Professionals	439,718	418,901	379,272	359,516
Board of Elections	3,118,288	1,315,570	1,502,197	1,421,683
Rhode Island Ethics Commission	880,894	850,786	969,234	1,207,394
Governor's Office	6,206,325	4,380,811	4,362,965	4,530,495
Public Utilities Commission	658,167	639,946	628,341	710,111
Rhode Island Commission on Women	128,402	65,185	83,741	86,557
Subtotal - General Government	\$ 432,554,730	\$ 393,942,657	\$ 476,538,956	\$ 533,134,694
Human Services				
Children, Youth, and Families	142,506,880	141,197,300	155,364,630	164,678,493
Elderly Affairs	27,333,971	29,279,214	25,660,265	21,093,567
Health	34,814,798	33,719,333	29,859,395	31,829,313
Human Services	603,149,660	633,285,805	694,484,822	773,199,536
Mental Health, Retardation, & Hospitals	220,817,604	214,539,342	230,338,122	240,055,689
Office of the Child Advocate	534,804	497,068	339,721	498,621
Commission on Deaf & Hard of Hearing	216,486	236,615	262,320	307,606
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	518,275	538,148	535,199	531,409
Commission for Human Rights	814,166	1,038,517	997,419	979,397
Office of the Mental Health Advocate	309,546	322,571	339,922	351,329
Subtotal - Human Services	\$ 1,031,016,190	\$ 1,054,653,911	\$ 1,138,181,815	\$ 1,233,524,960
Education				
Elementary and Secondary	742,734,656	776,026,245	793,955,132	837,487,852
Higher Education - Board of Governors	169,453,714	171,028,237	173,432,404	182,368,837
RI Council on the Arts	1,682,788	1,605,871	1,791,045	2,623,921
RI Atomic Energy Commission	668,866	695,635	716,418	765,890
Higher Education Assistance Authority	6,017,049	11,051,447	9,956,900	9,900,422
Historical Preservation and Heritage Commission	1,023,624	1,022,293	1,221,109	1,410,602
Public Telecommunications Authority	1,121,228	1,217,692	1,039,184	1,285,906
Subtotal - Education	\$ 922,701,925	\$ 962,647,419	\$ 982,112,192	\$ 1,035,843,430

Expenditures from General Revenues

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
Public Safety				
Attorney General	15,598,431	16,077,703	17,141,816	18,231,163
Corrections	137,096,214	144,082,968	146,860,786	146,939,175
Judicial	63,839,003	67,428,309	71,715,433	72,187,967
Military Staff	2,203,488	2,019,613	2,336,253	2,331,813
E-911 Emergency Telephone System	3,965,519	4,037,237	3,881,544	4,170,299
Fire Safety Code Board of Appeal & Review	241,753	211,693	237,485	266,894
State Fire Marshal	1,352,605	1,514,606	2,099,879	2,368,505
Commission on Judicial Tenure and Discipline	111,692	95,720	129,108	106,650
Rhode Island Justice Commission	166,450	161,663	253,856	253,085
Municipal Police Training Academy	344,422	343,298	342,853	373,710
State Police	38,382,940	39,147,188	42,443,124	45,368,538
Office Of Public Defender	5,935,302	6,291,199	6,871,288	7,757,125
Subtotal - Public Safety	\$ 269,237,819	\$ 281,411,197	\$ 294,313,425	\$ 300,354,924
Natural Resources				
Environmental Management	32,311,629	31,448,346	33,277,951	35,796,460
Coastal Resources Management Council	1,464,113	1,457,694	1,416,887	1,580,355
Water Resources Board	1,037,286	911,497	1,087,511	1,845,239
Subtotal - Natural Resources	\$ 34,813,028	\$ 33,817,537	\$ 35,782,349	\$ 39,222,054
Transportation				
Transportation	-	-	-	-
Subtotal - Transportation	\$ -	\$ -	\$ -	\$ -
Total	\$ 2,690,323,692	\$ 2,726,472,721	\$ 2,926,928,737	\$ 3,142,080,062
Reappropriations Carried Forward				13,489,214
Total				\$ 3,155,569,276

Expenditures from Federal Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
General Government				
Administration	\$ 32,502,341	\$ 82,293,909	\$ 32,942,033	\$ 25,888,496
Business Regulation	-	-	-	-
Labor and Training	34,400,596	31,357,468	31,986,628	28,569,144
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	28,638	1,502,841	2,913,387	981,955
General Treasurer	329,090	2,372,572	1,713,752	1,499,239
Boards for Design Professionals	-	-	-	-
Board of Elections	-	953,091	1,066,871	1,086,873
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	64,117	60,539	56,367	75,437
Rhode Island Commission on Women	-	-	-	-
Subtotal - General Government	\$ 67,324,782	\$ 118,540,419	\$ 70,679,038	\$ 58,101,144
Human Services				
Children, Youth, and Families	92,044,324	109,087,004	106,338,985	109,771,324
Elderly Affairs	10,325,114	11,776,519	11,769,152	13,910,687
Health	58,733,812	67,324,256	64,504,296	66,802,877
Human Services	811,725,133	909,408,857	931,182,907	1,003,025,555
Mental Health, Retardation, & Hospitals	217,167,224	241,479,073	232,779,398	242,185,305
Office of the Child Advocate	371,516	84,478	81,153	48,060
Commission on Deaf & Hard of Hearing	-	-	-	45,336
RI Developmental Disabilities Council	499,370	481,413	598,694	511,924
Governor's Commission on Disabilities	1,408	17,568	39,209	116,928
Commission for Human Rights	347,282	62,689	110,043	269,705
Office of the Mental Health Advocate	-	-	-	-
Subtotal - Human Services	\$ 1,191,215,183	\$ 1,339,721,857	\$ 1,347,403,837	\$ 1,436,687,701
Education				
Elementary and Secondary	128,195,727	151,504,398	178,847,178	178,766,858
Higher Education - Board of Governors	2,829,217	1,882,161	2,527,352	3,085,532
RI Council on the Arts	575,627	568,614	677,768	758,437
RI Atomic Energy Commission	(2,558)	123,663	64,899	325,000
Higher Education Assistance Authority	5,007,519	7,481,024	7,360,608	12,390,339
Historical Preservation and Heritage Commission	545,283	511,398	569,714	583,881
Public Telecommunications Authority	-	194,865	360,905	-
Subtotal - Education	\$ 137,150,815	\$ 162,266,124	\$ 190,408,424	\$ 195,910,047

Expenditures from Federal Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
Public Safety				
Attorney General	1,648,743	1,477,922	1,585,915	1,158,544
Corrections	3,127,232	1,800,395	2,889,866	9,473,800
Judicial	3,267,741	2,651,129	2,604,779	3,129,095
Military Staff	10,857,391	22,404,349	17,310,507	26,480,631
E-911 Emergency Telephone System	-	-	66,625	219,000
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	151,515	100,454	121,228	341,635
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	4,798,274	4,748,950	5,017,915	5,451,607
Municipal Police Training Academy	18,535	21,819	46,288	30,000
State Police	1,768,728	1,323,303	1,143,803	1,979,224
Office Of Public Defender	376,402	384,243	284,431	237,847
Subtotal - Public Safety	\$ 26,014,561	\$ 34,912,564	\$ 31,071,357	\$ 48,501,383
Natural Resources				
Environmental Management	14,887,796	14,636,019	16,417,852	30,190,338
Coastal Resources Management Council	1,653,805	1,541,458	2,279,028	1,753,000
Water Resources Board	172,500	553,805	606,874	500,000
Subtotal - Natural Resources	\$ 16,714,101	\$ 16,731,282	\$ 19,303,754	\$ 32,443,338
Transportation				
Transportation	163,081,687	162,802,416	198,755,687	207,852,520
Subtotal - Transportation	\$ 163,081,687	\$ 162,802,416	\$ 198,755,687	\$ 207,852,520
Total	\$ 1,601,501,129	\$ 1,834,974,661	\$ 1,857,622,097	\$ 1,979,496,133

Expenditures From Restricted Receipts

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
General Government				
Administration	\$ 9,675,537	\$ 10,244,668	\$ 8,285,544	\$ 10,145,202
Business Regulation	403,145	555,047	476,398	808,362
Labor and Training	20,390,413	22,053,116	22,322,945	20,684,521
Legislature	1,256,539	1,488,885	1,098,591	1,272,479
Lieutenant Governor	-	-	-	-
Secretary of State	415,326	475,516	391,429	485,628
General Treasurer	16,478,403	27,669,550	24,810,938	20,148,483
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	3,827,731	3,909,396	4,133,122	5,634,792
Rhode Island Commission on Women	-	-	-	-
Subtotal - General Government	\$ 52,447,094	\$ 66,396,177	\$ 61,518,967	\$ 59,179,467
Human Services				
Children, Youth, and Families	2,494,922	1,976,012	1,409,503	1,628,401
Elderly Affairs	-	-	-	3,325,000
Health	8,627,102	9,729,391	10,530,235	11,580,072
Human Services	3,474,543	3,625,799	3,539,350	5,612,622
Mental Health, Retardation, & Hospitals	43,760	45,970	50,000	100,000
Office of the Child Advocate	-	16,682	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	9,252	12,489	22,634	63,605
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
Subtotal - Human Services	\$ 14,649,579	\$ 15,406,343	\$ 15,551,722	\$ 22,309,700
Education				
Elementary and Secondary	1,220,713	1,900,632	2,843,754	4,859,230
Higher Education - Board of Governors	-	446,842	571,695	607,689
RI Council on the Arts	(42,573)	12,132	38,385	600,000
RI Atomic Energy Commission	-	-	-	-
Higher Education Assistance Authority	-	-	-	-
Historical Preservation and Heritage Commission	50,757	77,853	174,459	236,662
Public Telecommunications Authority	-	-	-	-
Subtotal - Education	\$ 1,228,897	\$ 2,437,460	\$ 3,628,293	\$ 6,303,581

Expenditures From Restricted Receipts

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
Public Safety				
Attorney General	582,076	667,937	698,341	861,932
Corrections	2,456,374	1,811,063	217,362	-
Judicial	6,559,800	7,209,394	6,730,331	7,390,042
Military Staff	114,415	80,254	156,049	421,429
E-911 Emergency Telephone System	-	-	714,707	1,656,924
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	11,596	20,421	24,110	30,000
Municipal Police Training Academy	-	-	-	-
State Police	193,184	379,015	248,488	301,100
Office Of Public Defender	-	-	-	-
Sheriffs of Several Counties	-	-	-	-
Subtotal - Public Safety	\$ 9,917,445	\$ 10,168,085	\$ 8,789,388	\$ 10,661,427
Natural Resources				
Environmental Management	9,210,337	9,856,218	9,171,245	10,394,288
Coastal Resources Management Council	3,352,963	5,210,304	1,349,120	805,733
Water Resources Board	596,555	537,975	848,723	338,899
Subtotal - Natural Resources	13,159,855	15,604,498	11,369,088	11,538,920
Transportation				
Transportation	25,860,444	31,105,365	5,720,556	6,000
Subtotal - Transportation	\$ 25,860,444	\$ 31,105,365	\$ 5,720,556	\$ 6,000
Total	\$ 117,263,314	\$ 141,117,927	\$ 106,578,014	\$ 109,999,095

Expenditures From Other Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
General Government				
Administration	\$ 65,301,395	\$ 74,678,353	\$ 66,560,912	\$ 87,697,560
Business Regulation	-	-	-	-
Labor and Training	425,441,233	409,336,577	385,555,618	389,254,534
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	-	-	-	-
General Treasurer	7,647,972	4,811,835	5,973,949	5,499,474
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	76,187
Public Utilities Commission	-	-	-	-
Rhode Island Commission on Women	-	-	-	-
Subtotal - General Government	\$ 498,390,600	\$ 488,826,765	\$ 458,090,479	\$ 482,527,755
Human Services				
Children, Youth, and Families	133,637	20,757	500	2,629,660
Elderly Affairs	4,955,717	4,726,979	4,916,266	4,760,000
Health	83,519	79,292	37,958	115,076
Human Services	140,000	-	-	50,000
Mental Health, Retardation, & Hospitals	1,250,716	677,591	2,797,761	6,411,261
Office of the Child Advocate	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	-	17,000	109,277	200,000
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
Subtotal - Human Services	\$ 6,563,589	\$ 5,521,620	\$ 7,861,762	\$ 14,165,997
Education				
Elementary and Secondary	72,088	198,023	1,076,256	477,280
Higher Education - Board of Governors	404,769,856	441,895,262	456,392,085	496,414,437
RI Council on the Arts	-	-	-	-
RI Atomic Energy Commission	144,657	148,512	195,125	157,049
Higher Education Assistance Authority	3,381,948	3,967,933	5,973,480	6,398,486
Historical Preservation and Heritage Commissio	-	-	-	-
Public Telecommunications Authority	523,200	935,942	1,770,356	756,911
Subtotal - Education	\$ 408,891,749	\$ 447,145,672	\$ 465,407,302	\$ 504,204,163

Expenditures From Other Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
Public Safety				
Attorney General	-	-	202,922	271,000
Corrections	1,135,960	768,628	1,772,048	4,211,198
Judicial	74,215	245,356	529,033	1,250,000
Military Staff	57,260	233,333	125,231	798,825
E-911 Emergency Telephone System	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	-	12,599
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	-	-	-	-
Municipal Police Training Academy	-	-	-	-
State Police	2,026,060	2,446,386	2,625,172	2,695,511
Office Of Public Defender	-	-	-	-
Subtotal - Public Safety	\$ 3,293,495	\$ 3,693,703	\$ 5,254,406	\$ 9,239,133
Natural Resources				
Environmental Management	1,445,326	1,149,269	5,861,649	4,010,041
Coastal Resources Management Council	145,000	172,000	-	-
Water Resources Board	146,613	201,545	92,546	119,312
Subtotal - Natural Resources	\$ 1,736,939	\$ 1,522,813	\$ 5,954,195	\$ 4,129,353
Transportation				
Transportation	105,152,879	127,301,342	127,676,006	104,065,552
Subtotal - Transportation	\$ 105,152,879	\$ 127,301,342	\$ 127,676,006	\$ 104,065,552
Total	\$ 1,024,029,251	\$ 1,074,011,915	\$ 1,070,244,150	\$ 1,118,331,953

Expenditures from All Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
General Government				
Administration	\$ 474,884,491	\$ 504,133,274	\$ 523,790,846	\$ 593,001,271
Business Regulation	9,589,094	9,885,090	9,754,827	11,343,606
Labor and Training	487,074,813	470,281,830	446,961,466	445,950,069
Legislature	28,678,414	25,851,141	28,031,704	30,228,786
Lieutenant Governor	795,014	841,746	848,006	917,362
Secretary of State	6,418,277	6,533,065	8,593,464	6,267,053
General Treasurer	27,953,461	37,585,650	35,665,017	30,045,868
Boards for Design Professionals	439,718	418,901	379,272	359,516
Board of Elections	3,118,288	2,268,661	2,569,068	2,508,556
Rhode Island Ethics Commission	880,894	850,786	969,234	1,207,394
Governor's Office	6,206,325	4,380,811	4,362,965	4,606,682
Public Utilities Commission	4,550,015	4,609,881	4,817,830	6,420,340
Rhode Island Commission on Women	128,402	65,185	83,741	86,557
Subtotal - General Government	\$ 1,050,717,206	\$ 1,067,706,019	\$ 1,066,827,440	\$ 1,132,943,060
Human Services				
Children, Youth, and Families	237,179,763	252,281,073	263,113,618	278,707,878
Elderly Affairs	42,614,802	45,782,712	42,345,683	43,089,254
Health	102,259,231	110,852,272	104,931,884	110,327,338
Human Services	1,418,489,336	1,546,320,461	1,629,207,079	1,781,887,713
Mental Health, Retardation, & Hospitals	439,279,304	456,741,976	465,965,281	488,752,255
Office of the Child Advocate	906,320	598,227	420,874	546,681
Commission on Deaf & Hard of Hearing	216,486	236,615	262,320	352,942
RI Developmental Disabilities Council	499,370	481,413	598,694	511,924
Governor's Commission on Disabilities	528,935	585,204	706,319	911,942
Commission for Human Rights	1,161,448	1,101,206	1,107,462	1,249,102
Office of the Mental Health Advocate	309,546	322,571	339,922	351,329
Subtotal - Human Services	\$ 2,243,444,541	\$ 2,415,303,730	\$ 2,508,999,136	\$ 2,706,688,358
Education				
Elementary and Secondary	872,223,184	929,629,299	976,722,320	1,021,591,220
Higher Education - Board of Governors	577,052,787	615,252,501	632,923,536	682,476,495
RI Council on the Arts	2,215,842	2,186,617	2,507,198	3,982,358
RI Atomic Energy Commission	810,965	967,811	976,442	1,247,939
Higher Education Assistance Authority	14,406,516	22,500,404	23,290,988	28,689,247
Historical Preservation and Heritage Commission	1,619,664	1,611,544	1,965,282	2,231,145
Public Telecommunications Authority	1,644,428	2,348,499	3,170,445	2,042,817
Subtotal - Education	\$ 1,469,973,386	\$ 1,574,496,675	\$ 1,641,556,211	\$ 1,742,261,221

Expenditures from All Funds

	FY 2003 Audited	FY 2004 Audited	FY 2005 Prelim. Actual	FY 2006 Enacted
Public Safety				
Attorney General	17,829,250	18,223,562	19,628,994	20,522,639
Corrections	143,815,780	148,463,054	151,740,062	160,624,173
Judicial	73,740,759	77,534,189	81,579,576	83,957,104
Military Staff	13,232,554	24,737,549	19,928,040	30,032,698
E-911 Emergency Telephone System	3,965,519	4,037,237	4,662,876	6,046,223
Fire Safety Code Board of Appeal & Review	241,753	211,693	237,485	266,894
State Fire Marshal	1,504,120	1,615,060	2,221,107	2,722,739
Commission on Judicial Tenure & Discipline	111,692	95,720	129,108	106,650
Rhode Island Justice Commission	4,976,320	4,931,034	5,295,881	5,734,692
Municipal Police Training Academy	362,957	365,117	389,141	403,710
State Police	42,370,912	43,295,892	46,460,587	50,344,373
Office Of Public Defender	6,311,704	6,675,442	7,155,719	7,994,972
Subtotal - Public Safety	\$ 308,463,320	\$ 330,185,549	\$ 339,428,576	\$ 368,756,867
Natural Resources				
Environmental Management	57,855,088	57,089,852	64,728,697	80,391,127
Coastal Resources Management Council	6,615,881	8,381,456	5,045,035	4,139,088
Water Resources Board	1,952,954	2,204,822	2,635,654	2,803,450
Subtotal - Natural Resources	\$ 66,423,923	\$ 67,676,129	\$ 72,409,386	\$ 87,333,665
Transportation				
Transportation	294,095,010	321,209,123	332,152,249	311,924,072
Subtotal - Transportation	\$ 294,095,010	\$ 321,209,123	\$ 332,152,249	\$ 311,924,072
Total	\$ 5,433,117,386	\$ 5,776,577,225	\$ 5,961,372,998	\$ 6,349,907,243
Reappropriations Carried Forward				13,489,214
Total				\$ 6,363,396,457

Free Surplus

State law provides that all unexpended or unencumbered balances of general revenue appropriations, whether regular or special, shall lapse to General Fund surplus at the end of each fiscal year, provided, however, that such balances may be reappropriated by the Governor in the ensuing fiscal year for the same purpose for which the monies were originally appropriated by the General Assembly. Free surplus is the amount available at the end of any fiscal year for future appropriation by the General Assembly.

As shown in the free surplus table, the opening surplus for FY 2006 is \$37.8 million, with \$13.5 million of general revenues reappropriated from FY 2005. This surplus is \$3.0 million less than the \$40.8 million upon which the FY 2006 enacted budget was based. Based upon the final enacted FY 2006 budget, the State Budget Office projects a deficit of \$2.8 million, including the expenditure of \$13.5 million of reappropriations.

The State is required by the State Constitution to maintain a balanced budget and will take such action as necessary to do so. In the event of a budgetary imbalance, the available free surplus will be reduced and/or additional resources (i.e. taxes, fines, fees, licenses, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances – Budget Procedures" will be put into effect. A combination of these measures will be utilized by the State in order to maintain a balanced budget.

	FY 2004	FY 2005	FY 2005	FY 2005	FY 2006
	<u>Audited⁽¹⁾</u>	<u>Enacted⁽²⁾</u>	<u>Revised⁽³⁾</u>	<u>Prelim. Actual⁽⁴⁾</u>	<u>Current⁽⁵⁾</u>
	(In Millions)	(In Millions)	(In Millions)	(In Millions)	(In Millions)
Opening Surplus					
Free Surplus	\$42.6	\$43.9	\$24.5	\$24.5	\$37.8
Reappropriated Surplus	<u>7.3</u>	<u>0.0</u>	<u>10.1</u>	<u>10.1</u>	<u>13.5</u>
Subtotal	\$50.0	\$43.9	\$34.6	\$34.6	\$51.3
Revenues and Transfers					
Revenues	2,441.6	2,592.1	2,671.2	2,643.8	2,781.1
Other Sources	<u>325.6</u>	<u>362.3</u>	<u>362.1</u>	<u>360.4</u>	<u>384.4</u>
Subtotal	2,767.3	2,954.4	3,033.3	3,004.2	3,165.6
Cash Stabilization Fund	(56.2)	(60.0)	(61.1)	(60.6)	(64.1)
Total Available	\$2,761.1	\$2,938.3	\$3,006.7	\$2,978.2	\$3,152.8
Projected Expenditures	\$2,726.5	\$2,937.8	\$2,965.0	\$2,926.9	\$3,155.6
Free Surplus	\$24.5	\$0.5	\$40.8	\$37.8	(\$2.8)
Reappropriations	10.1	0.0	0.0	13.5	0.0
Total Ending Balances	\$34.6	\$0.5	\$40.8	\$51.3	(\$2.8)

*May not add due to rounding.

⁽¹⁾Reflects actual audited results for FY 2004.

⁽²⁾Reflects the FY 2005 budget originally adopted by the General Assembly.

⁽³⁾Reflects the FY 2005 budget including revenues adopted by the Revenue Estimating Conference in May 2005 and changes to those adopted revenue estimates and changes in appropriations enacted by the General Assembly in the Supplemental Appropriation Act, as amended.

⁽⁴⁾Reflects preliminary unaudited actual data reported by the State Controller

⁽⁵⁾Reflects the FY 2006 enacted budget, with the preliminary closing surplus from FY 2005. The closing FY 2005 surplus was \$3.0 million less than expected.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY2002 and FY2003 budgets incorporated the use of the proceeds from the securitization of the tobacco settlement payments due the State under the Master Settlement Agreement (MSA) entered into by the Attorney General in November 1998. The tobacco securitization proceeds included in the budget as enacted are based on the actual sale of the State's right to receive *all* of its tobacco settlement payments for the 2004–2043 period. The bonds were sold by the Tobacco Settlement Financing Corporation on June 27, 2002 in the amount of \$685.4 million. The net proceeds of the sale, after funding the costs of issuance, capitalized interest, and the debt service reserve account, totaled \$544.2 million.

The budget used the net tobacco bond proceeds as follows: \$295.3 million was used in June 2002 to defease \$247.6 million of outstanding general obligation and certificate of participation debt (or \$295.5 million reflecting accreted value of capital appreciation bonds), and the remaining \$248.9 million was made available for operating budget expenditures in FY 2002–FY 2004. The debt defeasance resulted in debt service savings of \$51.6 million in FY 2003 and total debt service savings through FY 2012 of \$343.5 million. The legislatively enacted budgets used \$135.0 million of the net proceeds to finance operating expenditures in FY 2002, allocated \$113.5 million of resources to finance FY 2003 budgeted expenditures, and allocated the remaining \$1.7 million in FY 2004.

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provided additional federal appropriation support of \$20 billion to the States. The aid is divided equally between a flexible grant and an enhancement to the federal medical assistance percentage (FMAP) for Medicaid for five calendar quarters. There was approximately \$101.7 million provided to the State of Rhode Island over the span of the 2003 and 2004 fiscal years. It is estimated that \$51 million came in the form of increased Medicaid funds and \$50 million in flexible funds. There was an estimated loss of approximately \$9.5 million in state tax revenues due to provisions of the federal tax act which would have flowed through to Rhode Island taxes if then current law had remained unchanged.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2003 through 2006. FY 2003 and FY 2004 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The preliminary free surplus for FY 2005 is \$37.8 million, and there are \$13.5 million of reappropriations carried forward. The budget enacted by the General Assembly in June 2005 for FY 2006 was predicated upon available resources of \$3,142.2 million net of reserve fund contributions, and expenditures of \$3,142.1 million resulting in an estimated closing surplus of \$0.1 million. The current projections reflect an estimated deficit of \$3.7 million. These projections are based upon the enacted FY 2006 revenues and enacted FY 2006 appropriations, but an opening surplus which is \$3.0 million less. Included within the revenue and expenditure change are \$13.5 million of reappropriations from FY 2004. This is reflected in the FY 2006 revised column on the following table.

General Revenue Budget Surplus Statement

	FY2003	FY2004	FY2005	FY 2006	
	Audited	Audited	Unaudited	Enacted	Revised
Surplus					
Opening Surplus	\$ 31,080,906	\$ 42,633,628	\$ 24,451,367	\$ 40,802,481	\$ 37,809,085
Reappropriated Surplus	7,770,430	7,346,513	10,145,888		13,489,214
Subtotal	38,851,336	49,980,141	34,597,255	40,802,481	51,298,299
General Taxes	2,012,372,000	2,156,633,422	2,376,745,342	2,468,556,474	2,468,556,474
Revenue estimators' revision	-	-	-	-	-
Changes to adopted revenue estimates					
Subtotal	2,012,372,000	2,156,633,422	2,376,745,342	2,468,556,474	2,468,556,474
Departmental Revenues	290,254,791	285,004,989	267,079,817	312,586,831	312,586,831
Revenue estimators' revision	-	-	-	-	-
Changes to adopted revenue estimates					
Subtotal	290,254,791	285,004,989	267,079,817	312,586,831	312,586,831
Other Sources					
Gas Tax Transfers	25,506,330	7,760,433	9,022,662	4,760,000	4,760,000
Revenue estimators' revision-Gas Tax					
Changes to adopted revenue estimates					
Other Miscellaneous	184,086,402	19,705,661	28,197,313	18,950,000	18,950,000
Rev Estimators' revision-Miscellaneous	-	-	-	-	-
Changes to adopted revenue estimates					
Lottery	236,540,055	281,141,647	307,540,000	350,500,000	350,500,000
Revenue Estimators' revision-Lottery	-	-	-	-	-
Unclaimed Property	8,458,048	17,042,121	15,617,732	10,199,000	10,199,000
Revenue Estimators' revision-Unclaimed	-	-	-	-	-
Changes to adopted revenue estimates					
Subtotal	454,590,835	325,649,862	360,377,707	384,409,000	384,409,000
Total Revenues	\$ 2,757,217,626	\$ 2,767,288,273	\$ 3,004,202,866	\$ 3,165,552,305	\$ 3,165,552,305
Budget Stabilization	(55,765,129)	(56,198,438)	(60,573,085)	(64,127,096)	(64,067,228)
Total Available	\$ 2,740,303,833	\$ 2,761,069,976	\$ 2,978,227,036	\$ 3,142,227,690	\$ 3,152,783,377
Actual/Enacted Expenditures	\$ 2,690,323,692	\$ 2,726,472,721	\$ 2,926,928,737	\$ 3,142,080,062	\$ 3,142,080,062
Reappropriations	-	-	-		13,489,214
Changes to appropriations	-	-	-		-
Total Expenditures	\$ 2,690,323,692	\$ 2,726,472,721	\$ 2,926,928,737	\$ 3,142,080,062	\$ 3,155,569,276
Free Surplus	\$ 42,633,628	\$ 24,451,367	\$ 37,809,085	\$ 147,628	\$ (2,785,899)
Reappropriations	7,346,513	10,145,888	13,489,214	-	-
Total Ending Balances	\$ 49,980,141	\$ 34,597,255	\$ 51,298,299	\$ 147,628	\$ (2,785,899)
Budget Reserve and Cash					
Stabilization Account	\$ 83,647,695	\$ 84,297,657	\$ 90,859,627	\$ 96,190,644	\$ 96,100,842

TIMING OF AUDITED FINANCIAL REPORTS

Prior to Fiscal Year 2002, the State's audited annual financial report had typically been completed approximately six to nine months after the close of a fiscal year. The report for the year ending June 30, 2002 was completed sixteen months after the close of that year. There were two primary reasons for this delay. First, the 2002 report was the first report required to comply with GASB Statement 34. Completing the inventory of fixed assets which was required in order to provide a complete report of the State entity in accordance with GASB 34 took longer than anticipated. Second, at the beginning of the year ending June 30, 2002, the State introduced a new accounting system. There had been a number of training and system problems with the new software package which have required adjustments to correct initial recording of expenditures or interfund transfers. The 2003 report was completed sixteen months after the close of the fiscal year due to the late start on the FY 2003 audit and some continuing issues with the reconciliation and fixed assets reporting. The report for the fiscal year ending June 30, 2004 was issued in July 2005, and the administration has made it a priority to deliver more timely financial reports.

STATE INDEBTEDNESS

Authorization and Debt Limits

Under the State Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people, except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. By judicial interpretation, the limitation stated above has been judged to include all debts of the State for which its full faith and credit are pledged, including general obligation bonds and notes, bonds and notes guaranteed by the State, and debts or loans insured by agencies of the State, such as the Industrial-Recreational Building Authority. However, non-binding agreements of the State to appropriate monies in aid of obligations of a State agency, such as the provisions of law governing the capital reserve funds of the Port Authority and Economic Development Corporation, now known as the Rhode Island Economic Development Corporation, the Housing and Mortgage Finance Corporation, or to appropriate monies to pay rental obligations under State long-term leases, such as the State's lease agreements with the Convention Center Authority, are not subject to this limitation.

Public Finance Management Board

The nine-member Public Finance Management Board was created during the 1986 Session of the General Assembly for the purpose of providing advice and assistance, upon request, to issuers of tax-exempt debt in the State. The Board is charged with the responsibility of collecting, maintaining and providing information on State, municipal, and public or quasi-public corporation debt sold and outstanding, and serves as a statistical center for all State and municipal debt issues. The Chair of the Public Finance Management Board is the General Treasurer of the State, and personnel within the Treasurer's Office provide staffing.

The Board is also authorized to allocate the tax-exempt bond issuance capacity among all issuers in the State of Rhode Island, pursuant to Section 146 of the Internal Revenue Code of 1986. While all issuers of tax-exempt debt are required to give written notice to the Board of a proposed debt issuance, failure to do so does not affect the validity of the issuance of any bond or note. The lead underwriter or purchaser of any debt issue of the State, its departments, authorities, agencies, boards and commissions is required by the Rules and Regulations of the Board to pay an amount equal to one-fortieth of one percent of the principal amount of a new money issue as a fee.

Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of \$4.0 million in FY 1999, and \$865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net \$5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated \$4.415 million.

Tax Anticipation Notes

Notwithstanding the limitations upon borrowing indicated above, the State Constitution permits the General Assembly to provide for certain short-term borrowings without the consent of the people. Thus, the State is authorized to borrow in any fiscal year without consent of the people an amount in anticipation of State tax receipts not in excess of 20.0 percent of the tax receipts for the prior fiscal year, and may borrow an additional amount in anticipation of all other non-tax receipts not in excess of 10.0 percent of such receipts in the prior fiscal year, provided the aggregate of all such borrowings must not exceed 30.0 percent of the actual tax receipts during the prior fiscal year. Any such borrowing must be repaid during the fiscal year in which such borrowing took place. No money shall be borrowed in anticipation of such receipts in any fiscal year until all money so borrowed in all previous fiscal years shall have been repaid. The maximum amount of borrowing is further constrained by statute such that the aggregate borrowing shall not be in excess of the amount stipulated by the General Assembly by general law. During the 1997 Session, the General Assembly authorized the use of commercial paper as a means of short-term borrowing under these constitutional and statutory provisions.

The State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes, the partial restructuring of the State's disbursement pattern, and moving certain special revenue funds into the General Fund as accounts within the General Fund.

Since FY 1990, the State has utilized the powers described above in the following manner:

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
1990	\$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0

Net Tax Supported State Debt

The State has multiple categories of State debt, direct debt, guaranteed debt, and other obligations subject to annual appropriation. The following table shows these obligations.

The gross debt totals are adjusted for those obligations covered by revenue streams of the quasi-independent agencies. The intent of this presentation is to be consistent with rating agencies' practices.

As of September 30, 2005, authorized but unissued direct and guaranteed debt totaled \$398,147,881.

Net Tax Supported Debt Ratios
(in thousands)

	<u>Debt Outstanding June 30, 2001</u>	<u>Debt Outstanding June 30, 2002⁽¹⁾</u>	<u>Debt Outstanding June 30, 2003⁽¹⁾</u>	<u>Debt Outstanding June 30, 2004⁽¹⁾</u>	<u>Debt Outstanding June 30, 2005</u>
Direct Debt:					
Various Purpose Bonds Outstanding	\$ 822,485	\$ 654,879	\$ 694,933	\$ 737,772	\$ 778,250
Variable Rate General Obligations	<u>31,365</u>	<u>28,165</u>	<u>27,965</u>	<u>24,865</u>	<u>22,665</u>
Subtotal	\$853,850	\$ 683,044	\$ 722,898	\$ 762,637	\$ 800,915
Guaranteed Debt:					
Narragansett Bay District Commission Bonds ⁽²⁾	<u>18,459</u>	<u>15,019</u>	<u>13,119</u>	<u>11,266</u>	<u>-</u>
Subtotal	18,459	15,019	13,119	11,266	-
Other Debt Subject to Annual Appropriation:					
RI Refunding Bond Authority Lease Rental Bonds	146,055	132,440	100,705	84,730	74,615
RI Refunding Bond Authority – Direct	1,300	650	-	-	-
RI Refunding Bond Auth. – Gurmt Narr. Bay	30	15	-	-	-
Convention Center Authority Outstanding	315,805	319,435	310,005	302,320	202,855
Economic Development Corporation – Transportation	-	-	-	47,405	42,255
Certificates of Participation – Master Equipment Lease ⁽³⁾	11,015	7,995	8,865	5,180	9,505
Certificates of Participation – Intake Center	21,470	19,500	17,440	15,285	13,025
Certificates of Participation – Attorney General	3,740	2,795	2,795	2,795	2,795
Certificates of Participation – DLT Howard Complex	22,265	21,335	20,365	19,345	18,275
Certificates of Participation – Pastore Steam Plant	28,180	23,440	23,440	23,440	23,440
Certificates of Participation – Shepards Building	30,215	28,820	27,655	26,410	25,080
Certificates of Participation – Kent County Courthouse	-	-	-	-	58,910
Certificates of Participation – Traffic Tribunal Court Complex	-	-	-	-	21,565
Certificates of Participation – Training School	-	-	-	-	51,985
Rhode Island Housing/Traveler's Aid/NOP Program	-	12,550	12,550	12,550	13,060
Economic Development – Dow Chemical Corporation	25,000	25,000	25,000	25,000	24,542
Economic Development – URI Power Plant	15,859	15,304	14,729	14,134	13,514
Economic Development – McCoy Stadium	<u>9,585</u>	<u>8,780</u>	<u>7,945</u>	<u>7,080</u>	<u>6,180</u>
Subtotal	630,519	618,059	574,849	585,674	601,601
Performance Based Agreements⁽⁴⁾					
Economic Development – Fidelity Building I	24,116	23,615	23,071	22,487	21,847
Economic Development – Fidelity Building II	-	10,000	10,000	10,000	10,000
Economic Development – Fleet Bank Lease	<u>10,640</u>	<u>10,500</u>	<u>10,350</u>	<u>10,180</u>	<u>10,015</u>
Subtotal	34,756	44,115	43,421	42,677	41,862
Gross Debt	1,537,584	1,360,237	1,354,288	1,402,253	1,444,379
Less: Adjustments for Agency Payments:	(66,700)	(72,593)	(70,000)	(67,441)	(54,976)
Net Tax Supported Debt	\$1,470,884	\$1,287,643	\$1,280,933	\$1,334,812	\$1,389,403
Debt Ratios					
Personal Income	\$31,527,250	\$32,767,677	\$33,747,431	\$35,181,697	\$36,694,570
Debt as a Percent of Personal Income	4.67%	3.93%	3.80%	3.79%	3.79%

(1) Reflects defeasance with tobacco securitization proceeds of \$242,978,728 of general obligation bonds and \$4,650,000 of certificates of participation in June 2002.

(2) Reflects the defeasance in June 2005 of the user fee funded general obligation bonds by the Narragansett Bay District Commission which were guaranteed by the State.

(3) Includes non-certificated lease obligations in the master equipment lease category in the amount of \$318,000 as of June 30, 2000.

(4) Excludes contract for Providence Place Mall described under "State Revenues – Sales Tax".

Direct debt is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2005, the State expects to have approximately \$800.9 million of general obligation tax supported bonds outstanding. Authorized but unissued direct debt totaled \$398.1 million as of June 30, 2005.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State as of June 30, 2005 which are supported by State revenues for FY 2006 through FY 2024.

Debt Service Schedule for General Obligation
Debt Issued as of June 30, 2005 for FY 2006-2024

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$48,754,243	\$40,502,546	\$89,256,789
2007	43,517,653	39,534,947	83,052,600
2008	38,300,786	36,418,200	74,718,986
2009	43,988,740	31,518,543	75,507,283
2010	48,064,000	29,038,943	77,102,943
2011	46,750,000	26,810,747	73,560,747
2012	58,515,000	24,357,063	82,872,063
2013	65,790,000	21,059,412	86,849,412
2014	58,495,000	18,008,619	76,503,619
2015	53,910,000	15,084,153	68,994,153
2016	48,900,000	12,517,486	61,417,486
2017	47,650,000	10,074,343	57,724,343
2018	39,115,000	7,890,413	47,005,413
2019	37,340,000	6,003,283	43,343,283
2020	30,385,000	4,346,106	34,731,106
2021	27,135,000	2,944,481	30,079,481
2022	17,000,000	1,884,794	18,884,794
2023	17,780,000	1,060,894	18,840,894
2024	6,860,000	343,000	7,203,000
Subtotal-Fixed Rate Debt	<u>\$778,250,422</u>	<u>\$329,397,973</u>	<u>\$1,107,648,395</u>
Subtotal-Variable Rate Debt**	22,665,000		
Total*	\$800,915,422		

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 1, 2005 (excluding June 2005 payments). Excludes guaranteed and contingent debt. Debt outstanding as of June 30, 2005 is expected to be approximately \$800.9 million.

** Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2005 in the amount of \$22,665,000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of September 30, 2005 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Authorized but Unissued Debt as of Authority as of September 30, 2005</u>	<u>Bonds Issued Described Herein</u>	<u>Authorized but Unissued Debt After Issuance</u>
Direct Debt:				
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	2,644,627	880,000	1,764,627
Open Space	Ch. 425-P.L. of 1987	168,254	165,000	3,254
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	2,845,000	1,500,000	1,345,000
RI Water Pollution Revolving Loan Fund	Ch. 434-P.L. of 1990	9,000,000	1,800,000	7,200,000
Pawtuxet River District Commission	Ch. 434-P.L. of 1990	995,000	995,000	0
Elementary & Secondary Education	Ch. 70-P.L. of 1994	815,000	0	815,000
Higher Education Facilities	Ch. 31-P.L. of 1998	4,435,000	1,750,000	2,685,000
Environmental Management	Ch. 55-P.L. of 2000	13,930,000	6,500,000	7,430,000
State Police Headquarters Facility and State Municipal Fire Academy	Ch. 65-P.L. of 2002	46,470,000	0	46,470,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	6,800,000	1,500,000	5,300,000
Transportation	Ch. 65-P.L. of 2002	600,000	130,000	470,000
Transportation	Ch. 595-P.L. of 2004	66,520,000	42,000,000	24,520,000
Regional Career and Technical Schools	Ch. 595-P.L. of 2004	12,500,000	1,705,000	10,795,000
Higher Education Residence Halls	Ch. 595-P.L. of 2004	49,200,000	18,960,000	30,240,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	9,000,000	1,000,000	8,000,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	69,225,000	7,900,000	61,325,000
Pell Library – Undersea Exploration Center	Ch. 595-P.L. of 2004	13,000,000	1,200,000	11,800,000
Historic Preservation	Ch. 595-P.L. of 2004	3,000,000	0	3,000,000
URI Biotechnology & Life Sciences Center	Ch. 595-P.L. of 2004	45,000,000	5,400,000	39,600,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	42,000,000	0	42,000,000
Total Direct and Guaranteed Debt		\$398,148,891	\$93,385,000	\$304,762,881

Source: State Budget Office

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. These include the Blackstone Valley District Commission, and the Narragansett Bay Commission. As of June 30, 2004, these entities had bonds constituting guaranteed debt outstanding of \$11,265,823 and no authorized but unissued debt. As of June 30, 2005, the bonds were no longer considered an obligation since the Commission had provided resources in an escrow to economically defease all these state guaranteed obligations.

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since then, the State has extinguished a total of \$21,096,885, which was previously reflected in the above table.

Obligations Carrying Moral Obligation of State. Certain agencies of the State have the ability to issue bonds which are also secured by a capital reserve fund. If at any time the capital reserve fund falls below its funding requirement, the agency is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate the amount of the deficiency. See “Rhode Island Economic Development Corporation” and “Rhode Island Housing and Mortgage Finance Corporation” below.

Other Obligations Subject to Annual Appropriation. The State has entered into certain contractual agreements which, although of a long-term nature, are subject to annual appropriation by the General Assembly. Certain of these obligations are contractual agreements with State Agencies or Authorities (See “State Agencies and Authorities”). A brief description of the most significant of other such commitments for which the State has or may appropriate funds is provided below.

In December 1995, the State entered into a lease agreement with a financial institution which issued \$4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. As of June 30, 2005, \$2,795,000 of these certificates were outstanding. This reflects the defeasance of \$775,000 of certificates of participation in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

The State has also entered into a lease agreement with a financial institution that issued \$33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2005, \$13,025,000 was outstanding.

The State has also entered into a lease agreement with a financial institution which issued \$24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. As of June 30, 2005, \$18,275,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued \$34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued \$34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. As of June 30, 2005, \$25,080,000 in Certificates of Participation were outstanding.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. As of June 30, 2005, \$6,180,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued \$9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed \$318,000 of taxable certificates at that time. In June 2001, the State financed an additional \$3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional \$3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional \$6,950,000. As of June 30, 2005, \$9,505,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued \$28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. As of June 30, 2005, there was \$23,440,000 of certificates outstanding. This reflects defeasance of \$3,875,000 in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of \$13,060,000 of debt to provide funds for the relocation of the Traveler’s Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional \$2,250,000 for the Traveler’s Aid project through the loan agreement. As of June 30, 2005, there was \$13,060,000 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of \$53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. As of June 30, 2005, \$42,255,000 was outstanding.

Performance-based obligations of the Rhode Island Economic Development Corporation. In May 1996 the Economic Development Corporation issued \$25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional \$10 million of bonds with similar provisions were issued. As of June 30, 2005, \$31.847 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$1.6 million in 2005, and \$2.5 million annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2005, \$10.15 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately \$.3 million per year.

State Agencies and Authorities

The General Assembly from time to time has authorized the creation of certain specialized independent authorities, districts and corporations to carry out specific governmental functions. In certain cases, bonds and other obligations issued by these entities have been guaranteed by the full faith and credit of the State; additionally, the State may provide significant financial assistance for their operations. In other cases, such entities, although empowered to issue bonds, may not pledge the full faith and credit of the State and, therefore, these bonds are not guaranteed by the State.

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). On July 31, 2003 the Authority issued \$35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is \$33,620,000 at June 30, 2004.

Effective October 1, 1999, token purchases for \$10 (11 tokens) and \$50 (60 tokens) were authorized to provide savings to commuters as compared to the \$1.00 per axle cash fare.

Narragansett Bay Commission. The Commission is a public corporation of the State of Rhode Island, having a legal existence distinct from the State, and not constituting a part of State government, created in 1980 pursuant to Chapter 25 of title 46 of the General Laws of Rhode Island. The Act authorized the Commission to acquire, operate and upgrade the metropolitan Providence wastewater collection and treatment facilities. Full responsibility for the metropolitan Providence system was assumed on May 2, 1982.

In addition, certain general obligation bonds of the State were issued on behalf of the Commission, with certain user fees and charges dedicated to support debt service. Operating and maintenance expenses of the Commission also are funded with user charges. As of June 30, 2004, the State had issued \$92,425,000 of outstanding general obligation bonds on behalf of the Commission. Of this amount, the Commission was responsible for paying debt service on \$13,485,000 from its user fee revenues. The total outstanding payable from user fees is \$3,628,344 as reflected in the financial statements as of June 30, 2004. In June 2005, the Commission provided funds to economically defease the balance of State general obligation debt funded from user fees.

The State also has issued \$42,585,000 general obligation bonds on behalf of the Blackstone Valley District Commission. Bonds issued on behalf of the Blackstone Valley District Commission are supported by the rates and charges levied by the Commission for services provided to municipalities and other users of its facilities. On January 1, 1992, the Blackstone Valley District Commission was merged into the Commission. Outstanding bonds attributable to the Blackstone Valley District Commission as of June 30, 2004, totaled \$7,579,557 including the issuance of capital appreciation bonds in 1993. In June 2005, the Commission provided funds to economically defease the balance of State general obligation debt funded from user fees.

The Commission has borrowed monies from the Rhode Island Clean Water Finance Agency's revolving loan fund described below. In addition, the Commission has outstanding \$70,000,000 in variable rate Wastewater System Revenue Bonds payable from user fees.

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to \$3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State.

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority was created in 1987, pursuant to legislation under Chapter 34, title 42 of the General Laws of Rhode Island and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to \$80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default.

As of June 30, 2004, the Authority had outstanding mortgage agreements and other commitments for \$27,078,472 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by the Authority and all amounts realized upon foreclosure or other proceeds of defaulted mortgages are payable into the Industrial Recreational Building Mortgage Insurance Fund. All expenses of the Authority and all losses on insured mortgages are chargeable to this Fund. As of June 30, 2004, the Fund had a balance of \$3,721,188. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

Rhode Island Refunding Bond Authority. The Authority was created in 1987 under Chapter 8.1, title 35 of the General Laws of Rhode Island, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of providing a legal means to advance refund two series of general obligation bonds of the State of Rhode Island. The Authority is authorized to issue bonds and notes, secured solely by its revenues, derived from payments pursuant to a loan and trust agreement with the State of Rhode Island, subject to annual appropriation. The payment of such loans by the State is subject to and dependent upon annual appropriations being made by the General Assembly.

Article 2 of the Fiscal Year 1998 Appropriations Act, effective July 1, 1997, transferred the functions, powers, rights, duties and liabilities of the Rhode Island Public Buildings Authority to the Rhode Island Refunding Bond Authority. Until this consolidation, the Rhode Island Public Buildings Authority, created by Chapter 14 of title 37 of the General Laws of Rhode Island, was a body corporate and politic which was generally authorized to acquire, construct, improve, equip, furnish, install, maintain and operate public facilities and public equipment through the use of public financing, for lease to federal, State, regional and municipal government branches, departments and agencies, in order to provide for the conduct of the executive, legislative and judicial functions of government. The various types of projects financed by the Public Buildings Authority included judicial, administrative, educational, residential, rehabilitative, medical, correctional, recreational, transportation, sanitation, public water supply system and other projects.

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2004 totals \$84,730,000.

Rhode Island Depositors Economic Protection Corporation. The Rhode Island Depositors Economic Protection Corporation (DEPCO) was created in 1991 under Chapter 116, title 42, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. DEPCO was created for the purpose of protecting depositors of certain credit unions and other financial institutions ("Eligible Institutions") in the State whose deposits were previously insured by the Rhode Island Share and Deposit Indemnity Corporation ("RISDIC"), a private deposit insurance fund which ceased operations and entered conservatorship on December 31, 1990. DEPCO is authorized to purchase assets and to assume liabilities including depositor liabilities of Eligible Institutions. DEPCO is also authorized to assist any Eligible Institutions in the acquisition of federal deposit insurance. The Corporation is carrying out a plan which included successfully paying substantially all depositors one hundred percent (100%) of their original deposit claims prior to October 31, 1993 through a combination of Corporation supported acquisitions and direct payments to depositors. The Corporation is authorized to issue general and/or special obligation bonds. Special obligation bonds are secured solely by a portion of the State sales and use tax receipts, subject to annual appropriation by the General Assembly or from other funds appropriated by the General Assembly for such purposes.

The Corporation issued special obligation bonds in the amount of \$149,996,923.60 in 1991. The Corporation also issued parity special obligation bonds in the principal amount of \$306,470,000 in 1992. In March 1993, DEPCO issued Special Obligation Refunding Bonds in the principal amount of \$138,835,000 to provide for the advance refunding of \$119,465,000 principal amount of the 1991 Special Obligation Bonds. In July 1993, the Corporation issued Special Obligation Refunding Bonds in the principal amount of \$206,635,000 to refund \$187,990,000 of the 1992 Special Obligation Bonds. As of August 3, 2000 all of the Special Obligation Bonds had been paid, cancelled, refunded or defeased. All other bonded debt of DEPCO was repaid on July 3, 1995.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center and related facilities, including a hotel. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. The Authority has issued \$182,395,000 of 1993 Series B Refunding Revenue Bonds, \$56,755,000 of 1993 Series C Refunding Revenue Bonds, \$101,315,000 of 2001 Series A Refunding Revenue Bonds and \$58,285,000 of 2003 Series A Refunding Revenue Bonds. As of June 30, 2004, \$302,320,000 remained outstanding. After adjusting for unamortized bond premium, bond discount, and deferred loss on advanced refunding which is attributable to the issuance of refunding bonds, the outstanding total bonds payable as of June 30, 2004 was \$284,553,876.

On April 27, 2005, the Authority sold the hotel to a third party. On May 13 and 16, 2005, the Authority in substance defeased \$90,085,000 in principal amount of its outstanding bonds from the proceeds of the sale of the hotel. Additionally, in the 2005 Session, the General Assembly authorized the issuance of \$92.5 million of debt by the Convention Center Authority, secured by a lease with the State, in order to finance the acquisition of the Civic Center from the City of Providence and improvements thereto.

Pursuant to a Lease and Agreement dated as of November 1, 1991, between the Authority, as lessor, and the State, as lessee, the Authority leased the Convention Center facilities to the State. The State is obligated to make lease payments in an amount sufficient to pay the operating expenses of the Authority and the debt service on its obligations including, but not limited to, the bonds. The lease payments are subject to annual appropriation by the General Assembly.

Rhode Island Resource Recovery Corporation. The Rhode Island Resource Recovery Corporation (the Corporation), a quasi-public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws of Rhode Island, for the purpose of assisting municipalities in solving their waste disposal problems and for developing a more suitable alternative approach to the overall solid waste disposal problem through implementation of a resource recovery program. To accomplish its purposes, the Corporation has the power to issue negotiable notes and bonds subject to the provisions of Rhode Island General Law 35-18 and 23-19.

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of \$19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2004 totals \$18,301,085.

The outstanding indebtedness is collateralized by all revenues of the Corporation, certain restricted funds created pursuant to the Bonds issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the Bonds.

In the 2005 Session, the General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a \$6,000,000 subsidy in FY 1994. Due to the improved financial condition of the Corporation, the General Assembly has required the Corporation to transfer the following annual amounts to the State's General Fund:

Fiscal Year	Amount
1995	\$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0
2005	<u>4,300,000</u>
	\$43,415,000

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$31,500,000 into the trust fund and has disbursed approximately \$5,150,000 for remediation expenses through June 30, 2004. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$6,400,000.

The cost of future remedial actions may exceed the amount of funds reserved. However, the Corporation projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and without the State are all potentially responsible parties ("PRPs") for the costs of remedial

actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and postclosure care costs related to Phases II, III and IV. At June 30, 2004, the Corporation had transferred approximately \$20,400,000 into the trust funds to meet the financial requirements of closure and postclosure care costs related to Phases II & III and Phase IV. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and postclosure care cost. On September 30, 2004, the Corporation transferred an additional \$3,288,000 into the Phase IV trust fund.

Rhode Island Clean Water Finance Agency. Pursuant to Chapter 12.2 of title 46 of the Rhode Island General Laws, the Rhode Island Clean Water Finance Agency (the Agency) is a body politic and corporate and a public instrumentality of the State, having distinct legal existence from the State and not constituting a department of the State government. The purpose of the Agency is to operate revolving loan funds capitalized by federal grants, proceeds of the 1986 and 1990 general obligation bond referenda, and other revenues and borrowing as authorized. Eligible applicants to the revolving loan fund include local government units for water pollution control facility capital improvements and drinking water capital improvements. Project selection will be determined according to federal EPA criteria, DEM and DOH prioritization, and Agency criteria as to security and fiscal soundness.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2004, the Agency has issued bonds in the aggregate amount of \$472,430,000 to fund \$510,001,555 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2004 is \$307,760,000 in the clean water state revolving fund (CWSRF wastewater projects), \$63,795,000 for three conduit financing and one note for \$7,719,000 and \$40,170,000 in the drinking water state revolving fund. Also, in years 1997 through 2004, the Agency made a total of \$36,830,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of \$25,375,250 in Direct Loans out of the drinking water State revolving fund and \$58,095,000 out of the Rhode Island Water Pollution Control Revolving Fund.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 238 buses and 115 vans carrying approximately 20.2 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 and then to \$1.25 in October 1998. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2004, audited results of operations reveal that State-operating assistance to the Authority totaled \$30,686,644, operating revenues totaled \$21,951,763, and other revenues totaled \$17,259,916.

Rhode Island Economic Development Corporation. The Rhode Island Economic Development Corporation is a public corporation of the State for the purpose of stimulating the economic and industrial development of the State through assistance in financing of port, industrial, pollution control, recreational, solid waste and water supply facilities, and through the management of surplus properties acquired by the State from the federal government. The Corporation is generally authorized to acquire; contract and assist in the financing of its projects through the issuance of industrial development revenue bonds which do not constitute a debt or liability of the State.

The Corporation, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, created in 1974 under Chapter 64, title 42 of the General Laws of Rhode Island. The Economic Development Corporation continues the function of the Port Authority, but also incorporates other activities performed by the State Department of Economic Development and provides assistance to economic related agencies including

the Rhode Island Airport Corporation and the Rhode Island Industrial Facilities Corporation. The new corporation provides a Single State agency to deal with economic development for the State.

The Quonset Development Corporation was created in 2004 by Title 42, Chapter 64.9 of the Rhode Island General Laws, as a subsidiary of the Rhode Island Economic Development Corporation. Effective January 1, 2005, the Economic Development Corporation transferred oversight of the Quonset Point/Davisville Industrial Park in North Kingstown to the newly created Quonset Development Corporation.

As of June 30, 2004, the Corporation had revenue bonds outstanding of \$637,974,403 including conduit debt of \$55,372,767 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued \$30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Economic Development Corporation repaid the debt to the letter of credit bank and receivership costs by utilizing funds on hand in FY 2000, the proceeds from the sale of the facility, and state appropriations authorized during the 1999 General Assembly. The state appropriations, disbursed in the amount of \$5.8 million, were partially reimbursed as a result of additional receivership proceedings, resulting in net state support of \$5.4 million. As of June 30, 1999, the balance outstanding was \$28,675,000. As of January 1, 2000, there were no bonds outstanding for the original Alpha Beta debt. A new series of bonds in the amount of \$25.0 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Corporation's capital reserve fund. On November 17, 2000, Dow Chemical Corp. assumed the bonds from Collaborative Smithfield Corp.

In May 1996, Rhode Island Economic Development Corporation issued \$25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Economic Development Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above. To secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2004, the outstanding balance was \$22,486,636.

In May 2002, the Rhode Island Economic Development Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield, Rhode Island. In connection therewith, the Rhode Island Economic Development Corporation issued \$10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2004, the outstanding balance was \$10,000,000.

In November 1997, the Rhode Island Economic Development Corporation issued \$11,000,000 in revenue bonds on behalf of Fleet National Bank for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2004, the outstanding balance was \$10,000,000.

Bonds secured by the Corporation's capital reserve fund (including bonds for the Dow Chemical Corporation, Fidelity Management Resources and Fleet National Bank described above) carry a moral obligation of the State. If at any time, certain reserve funds of the Economic Development Corporation pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. The General Assembly may (but it is not obligated to) appropriate the amount of the deficiency.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. The balance outstanding as of June 30, 2004 was \$7,080,000.

In May 2000 the Rhode Island Economic Development Corporation issued revenue note obligations in the amount of \$40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of \$3.68 million in years 1-5, and \$3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient.

In November 2003, the Rhode Island Economic Development Corporation issued \$53.03 million of motor fuel tax revenue bonds, secured by a payment agreement with the State pledging two cents of the gasoline tax, subject to annual appropriation. The Corporation also issued \$216.805 million of grant anticipation notes (GARVEE's) secured by future federal revenues.

Rhode Island Airport Corporation. RIAC was created by the Rhode Island Port Authority and Economic Development Corporation, now the Rhode Island Economic Development Corporation (EDC), on December 9, 1992, as a subsidiary public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State, and the EDC, and having many of the same powers and purposes of EDC. Pursuant to its Articles of Incorporation, RIAC is empowered to undertake the planning, development, management, acquisition, ownership, operations, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility" as defined in Rhode Island General Law. The Airport Corporation's financial position and results of operations are presented in the financial statements of the EDC by discrete presentation. This presentation involves reporting the Airport Corporation's financial position and results of operations in one column separate from the financial position of the Economic Development Corporation and its results of operations.

Pursuant to the Lease and Operating Agreement (Lease Agreement) by and between the State, the Rhode Island Department of Transportation and RIAC dated as of June 25, 1993, RIAC leased, initially for a period of thirty years, all of the airports which previously had been under the jurisdiction of the Department of Transportation of the State of Rhode Island. A second amendment to the Lease Agreement, effective as of June 2, 1998, amended the "Demised Term," extending the lease term to June 30, 2028. The rental rate per the lease is \$1 per year. Pursuant to the Lease Agreement, effective July 1, 1993, the State transferred to RIAC all of the personal property and other assets of the State located at or relating to the six airports.

RIAC operates on a fiscal year basis of July 1 through June 30. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Purpose Fund for the operation and maintenance of any of the six airports under its jurisdiction. RIAC has utilized State General Obligation (G.O.) Bonds issued on behalf of RIAC for the intended use at the airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes. RIAC does not have the power to issue bonds or notes, or to borrow money without the approval of EDC, nor does it have the power of eminent domain with respect to real property.

RIAC operates T.F. Green Airport (Airport), which is Rhode Island's only certified Part 139 commercial carrier. There are five outlying airports operated by RIAC, each of which is managed pursuant to a Management Contract originally dated as of May 7, 1996 by and between RIAC and Hawthorne Aviation, Inc. RIAC's agreement with Hawthorne Aviation, Inc. has been extended and is scheduled to expire on June 30, 2006. Each of these airports is briefly described below:

- North Central Airport – located in Lincoln, R.I., approximately fifteen miles from T.F. Green Airport. North Central Airport is classified as a reliever airport to T.F. Green by the Federal Aviation Administration (FAA).
- Quonset Airport – located in North Kingstown, R.I., approximately ten miles south of T.F. Green Airport. The Rhode Island Air National Guard moved its operations from T.F. Green Airport to Quonset Airport in 1986. Quonset also has additional industrial facilities which are leased to various tenants. Quonset Airport is classified as a reliever airport.

- Westerly Airport – located in Westerly, R.I., approximately thirty-five miles from T.F. Green Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.
- Newport Airport – located in Middletown, R.I., approximately seventeen miles from T.F. Green Airport. Newport Airport is classified as a general aviation airport.
- Block Island Airport – located in Block Island, just off the southern coast of Rhode Island, approximately twenty-five miles from T.F. Green Airport. Block Island Airport is also classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

As of June 30, 2004, seven United States major, national passenger airlines operating jet aircraft with at least sixty seats provided scheduled passenger service at the airport to domestic destinations. Fourteen regional and commuter airlines also provided passenger service to domestic and international destinations. Three carriers provided all cargo service.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following signatory airlines:

- American Airlines
- Continental Airlines
- Delta Airlines
- Northwest Airlines
- Southwest Airlines
- United Airlines
- US Airways

The term of the Airline agreements extends through June 30, 2010, and establishes procedures for the annual adjustment of signatory airline terminal rates and aircraft landing fees collected for the use and occupancy of terminal and airfield facilities.

T.F. Green Airport ranked as the 56th busiest in the country for the federal fiscal year 2002 according to the latest published data in the “Terminal Area Forecast Summary” produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 57th in federal fiscal year 2001, 58th in federal fiscal years 2000 and 1999, 60th in federal fiscal year 1998, and 63rd in federal fiscal year 1997.

Moreover, the Airport has experienced a smaller reduction in passengers after the terrorist attacks of September 11, 2001, than the national average of all commercial airports. Actual enplaned passengers for fiscal year 2004 was approximately 21,600 below 2003 resulting in a decline of .89 percent. While passenger traffic at T.F. Green continues to lag behind fiscal years 2002 and 2003, the decline for 2004 is less than the reported nationwide average of 7-9 percent.

In July 1993, the date RIAC took financial responsibility of the Airport from the State, RIAC agreed under the Lease Agreement to reimburse the State for the principal and interest payments due on G.O. bonds issued by the State for airport purposes. These bonds mature annually from 1993 through 2020. The balance outstanding at June 30, 2004 and 2003 was \$18,856,688 and \$20,971,408, respectively.

In 1993, RIAC issued \$78,100,000 of General Airport Revenue Bonds dated October 20, 1993, maturing annually from 1998 through 2004 with interest coupons ranging from 4.2 percent to 5.25 percent. The balance outstanding at June 30, 2004 and 2003 was \$2,400,000 and \$68,010,000, respectively.

In May 1994, RIAC issued \$30,000,000 General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25 percent to 7 percent. The balance outstanding at June 30, 2004 and 2003 was \$6,700,000 and \$27,480,000, respectively.

In December 1998, RIAC issued \$8,035,000 Series A and \$53,140,000 Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2 percent to 5.25 percent. The balance outstanding as of June 30, 2004 and 2003 was \$58,050,000 and \$59,135,000, respectively.

In May 2000, RIAC issued \$8,380,000 Series A and \$42,165,000 Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51 percent to 6.5 percent. The balance outstanding as of June 30, 2004 and 2003 was \$50,545,000 for each year.

On October 2, 2003, RIAC issued \$31,725,000 Series A Airport Revenue Refunding Bonds to enable the defeasance of \$31,395,000 of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5 percent to 5 percent. The balance outstanding as of June 30, 2004 was \$31,725,000.

On March 12, 2004, RIAC issued \$52,665,000 Series A Airport Revenue Refunding Bonds to enable the defeasance of \$31,915,000 and \$20,190,000 in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARB(s), respectively. The refund issue matures annually from 2005 through 2024 with interest coupons from 2 percent to 5 percent. The balance outstanding as of June 30, 2004 was \$52,665,000.

Since the inception of RIAC in 1992, there have been four General Airport Revenue Bonds (GARBS) issued by the Rhode Island Economic Development Corporation (EDC), the parent of RIAC, to finance construction and other related costs for certain capital improvements at T.F. Green Airport and two Airport Revenue Refunding Bonds (ARRBs) to defease substantially all of the 1993 and a portion of the 1994 GARB debt. The GARBS include the 1993 Series A Bonds (\$78,100,000), 1994 Series A Revenue Bonds (\$30,000,000), 1998 Series A&B Revenue Bonds (\$61,175,000), and the 2000 Series A&B Revenue Bonds (\$50,545,000). The ARRBs include the 2003 Series A Bonds (\$31,725,000) and the 2004 Series A Bonds (\$52,665,000).

In the 2005 Session, the General Assembly approved the issuance of \$123 million of debt to finance an intermodal train station facility near the airport in Warwick to be financed by special purpose airport revenue bonds and a TFIA loan. The total project cost is expected to be \$170 million.

Rhode Island Industrial Facilities Corporation. The Rhode Island Industrial Facilities Corporation is a public body corporate and agency of the State established under Chapter 37.1, title 45 of the General Laws of Rhode Island. The Corporation is authorized to acquire, construct, finance and lease the following projects: (a) any land, building or other improvement, and all real and personal properties, including, but not limited to, machinery and equipment or any interest therein, whether or not in existence or under construction, which shall be suitable for manufacturing, warehousing, or other industrial or commercial purposes or suitable for pollution abatement or control, for the reconstruction, modernization or modification of existing industrial plants for the abatement or control of industrial pollution or suitable for solid waste disposal, or for any combination of such purposes including working capital, but shall not include raw materials, work in process or stock in trade; (b) any railroad rolling stock and vehicles for the transportation of freight; (c) the construction and/or acquisition costs of marine craft and necessary machinery, equipment and gear to be used primarily and continuously in the fishing industry; (d) the construction and/or acquisition costs and necessary machinery and equipment of any marine craft for research or other uses considered to be an integral part of any land-based industrial concern which would qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2004, the Corporation had an outstanding principal balance of conduit debt of \$113,077,339. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled \$27,078,472 as of June 30, 2004.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is

authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and to make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, and to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2004 was \$1,381,033,532 consisting of \$1,063,173,532 of long-term bonds and \$317,860,000 of short-term or convertible-option bonds. Included in the \$1,063,173,532 is \$260,466,777 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$38,791,306 on June 30, 2004. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation. As of June 30, 2004, the Corporation had combined total fund equity of approximately \$253,298,707.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2004, the Authority held \$609,351,888 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on September 30, 2004, \$17,075,441 in Rhode Island Family Education Loans and \$142,155,899 in College Bound Loans. As of September 30, 2004, the Authority had \$806,225,000 of tax-exempt and taxable bonds outstanding.

Rhode Island Higher Education Assistance Authority. The Authority was created in 1977 under Chapter 57, title 16 of the General Laws as a public corporation of the State having a distinct legal existence from the State and not constituting a department of State government. It was created for the purpose of guaranteeing eligible loans to students and parents of students attending eligible institutions and of administering other programs of post-secondary student financial assistance assigned by law to the Authority (e.g. Rhode Island State Scholarship/Grant Program and College Bound Fund, Rhode Island's IRS Section 529 college savings program). Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On August 7, 1997 the Board issued refunding bonds in the amount of \$9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of June 30, 2004 was \$5,550,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000. On November 15, 2002, the Board issued \$11,385,000 of revenue bonds. A portion of the proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds will be used to fund Phase III of public drinking water protection. The amount of the series 2002 refunding bonds outstanding as of June 30, 2004 was \$10,515,000.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out

its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2004, the Corporation had \$1,606,092,010 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

Tobacco Settlement Financing Corporation. The Tobacco Settlement Financing Corporation (TSFC) was created in 2002 as a public corporation, having a distinct legal existence from the State and not constituting a department of state government. The TSFC was created to finance the acquisition from the State of the State's right, title and interest in the State's rights to receive the moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company and (ii) the Consent Decree and Final Judgment of the Rhode Island Superior Court for Providence County dated December 17, 1998, as the same has been and may be corrected, amended or modified, in the class action styled *State of Rhode Island v. American Tobacco, Inc., et al.* (Docket No. 97-3058), including without limitation, the rights of the State to receive the moneys due to it thereunder.

The Corporation issued \$685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts", as defined in the Act, after December 2003. As of June 30, 2004, \$681,680,000 of bonds were outstanding.

In accordance with the Act, the TASC bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the TASC bonds. The TASC bonds do not constitute an indebtedness of or a general, legal or "moral" obligation the State or any political subdivision of the State. In accordance with Generally Accepted Accounting Practices, the financial statements of the TSFC do not assign a value to the future revenues from the Master Settlement Agreement.

EMPLOYEE RELATIONS

Under State law, all State employees, with certain exceptions, have the right to organize, to designate representatives for the purpose of collective bargaining and to negotiate with the Governor or his designee on matters pertaining to wages, hours and other conditions of employment, except the State employees' retirement system. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other than the State Police. With respect to the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only, and subject to subsequent mutual agreement of the parties.

Below the level of State government, municipal employees, including uniformed and non-uniformed employees and teachers have rights similar to State employees to organize, engage in collective bargaining and submit unresolved issues to arbitration. State law or judicial interpretation forbids all such employees to engage in any work stoppage, slowdown or strike. Police and Firefighters have binding arbitration on all matters including wages. The decision of the arbitrators on contract term disputes is binding on the parties with respect to all matters, including those involving the expenditure of money. With respect to teachers and non-uniformed employees, the arbitrators' decision is binding on all unresolved issues other than those involving the expenditure of money, which matters remain subject to the subsequent mutual agreement of the parties.

As of March 2, 2005 the State had 14,966 full-time equivalent positions. Of this amount, 12,451 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 4,660 employees,

or 38.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (1,011 employees); the Rhode Island Brotherhood of Correctional Officers (1,197 employees); the American Association of University Professors (696 employees) to name a few. In addition, there are 3,375 non-union employees. Contracts with six of the collective bargaining units had previously expired and nine others expired on June 30, 2004. In July 2005, the largest bargaining unit, Council 94, settled a four-year contract which provides for four consecutive cost-of-living adjustments and initiation of co-sharing of employee medical benefit coverage. The contracts provide that the terms of the previous contract prevail until a new contract is negotiated. Since July, the AAUP and a few other bargaining units have signed contracts.

STATE RETIREMENT SYSTEMS

Employees' Retirement System

The State of Rhode Island Employees' Retirement System (ERSRI) is a multiple employer, cost-sharing, public employee retirement system that acts as a common investment and administrative agent for pension benefits to be provided to State employees who meet eligibility requirements as well as teachers and certain other employees employed by local school districts in Rhode Island. A separate retirement program is maintained for members of the faculty of the State University and colleges and certain administrative employees in education and higher education. This program is provided through Teachers' Insurance and Annuity Association Plan (TIAA).

The System provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies (LEAs) and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal (EAN) and amortization of the Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 26 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

Progress Toward Realization of Financing Objectives

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio decreased from 65.5 percent to 59.6 percent during the period July 1, 2003 to June 30, 2004, while for teachers the ratio decreased from 64.9 percent to 59.3 percent over the same period. These funding ratios do not incorporate the result of "pension reform" described in the following section. These are based on the Entry Age Normal funding method effective June 30, 1999.

Pension Reform

Article 7 of the Fiscal Year 2006 Appropriations Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) state employees and teachers effective July 1, 2005. The law provides for an actuarially reduced retirement available at age 55 and 20 years of service. Enactment of these changes resulted in significantly lower state and local contributions beginning in Fiscal Year 2006 than would have otherwise been required as follows:

Employer/Employee Contribution Rates

	FY 2005 Employer Contribution Rate Actual	FY 2006 Employer Contribution Rate Baseline	FY 2006 Employer Contribution Rate After Reform
State Employee	11.51%	16.96%	14.84%
Teachers	14.84%	20.01%	16.47%
State Share	6.12%	8.17%	6.75%
Local Share	8.72%	11.84%	9.72%

Pursuant to state law, state employees contribute 8.75% of salary and teachers contribute 9.5% of salary. These contribution rates were not changed as part of the reform. The pension reform changes impacted those employees with less than 10 years of contributory service as of July 1, 2005 and are reflected in the Tier II column below. Tier I members are those members who were vested as of July 1, 2005, and will be eligible to retire under the former provisions.

Change in Age Eligibility

<u>Tier I Members</u>	<u>Tier II – Enacted Reform</u>
28 Years of Service or Age 60 with 10 Years of Service	Age 59 with 29 Years of Service Or Age 65 with 10 Years of Service

Change in Benefit Accrual Rates

<u>Years of Service (YOS)</u>	<u>Tier I</u>	<u>Tier II Enacted Reform</u>
1 to 10	1.7 %	1.60 %
11 to 20	1.9 %	1.80 %
21 to 25	3.0 %	2.00 %
26 to 30	3.0 %	2.25 %
31 to 34	3.0 %	2.50 %
35	2.0%	2.50%
36 to 37	0.0 %	2.50 %
38	0.0 %	2.25 %
Maximum Accrual	80% at 35 YOS	75% at 38 YOS

Change in Cost of Living Adjustment

<u>Tier I</u>	<u>Tier II – Enacted Reform</u>
3.0 % annually effective on the 3 rd January 1 after retirement	Prior calendar year's U.S. Consumer Price Index, up to a maximum of 3.0 %, effective on the 3 rd anniversary after retirement

Social Security Option

<u>Tier I</u>	<u>Tier II – Enacted Reform</u>
Retirees can opt to receive a higher pension prior to being social security eligible and a reduced pension upon receiving social security	Option not available

GASB 25 and Funding Progress

Accounting requirements for ERSRI are set by Governmental Accounting Standards Board Statement No. 25 (GASB 25). The Schedule of Funding Progress shows a historical summary of the funded ratios and other information for ERSRI. The notes to required supplementary information shows other information needed in connection with disclosure under GASB 25.

GASB 25 requires that plans calculate an Annual Required Contribution (ARC), and, if actual contributions received are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. This amortization payment eventually will have to be computed using a funding period no greater than 30 years, but a 40-year maximum amortization period may be used during a ten-year transition period. Further, the amortization payment included in the ARC may be computed as a level amount, or it may be computed as an amount that increases with payroll. However, if payments are computed on a level-percent of payroll approach, the payroll growth assumption may not anticipate future membership growth.

The table below shows the calculated contribution rates. This is the ARC for State Employees and Teachers, respectively. The payroll growth rate used in the amortization calculations is as determined by method approved by the Retirement Board, and does not include any allowance for membership growth.

Development of Contribution Rates
June 30, 2004

		State Employees	Teachers
1.	Compensation		
(a)	Supplied by ERSRI	\$ 575,574,300	\$ 810,064,092
(b)	Adjusted for one-year's pay increase	606,087,585	866,532,598
2.	Actuarial accrued liability	3,694,787,818	5,634,195,435
3.	Actuarial value of assets	2,202,900,345	3,340,527,073
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,491,887,473	2,293,668,362
5.	Remaining amortization period at valuation date	25	25
6.	Contribution effective for fiscal year ending:	June 30, 2007	June 30, 2007
7.	Payroll projected for two-year delay	652,396,464	932,741,105
8.	Amortization of UAAL	110,765,306	168,372,938
9.	Normal cost		
(a)	Total normal cost rate	10.17%	11.09%
(b)	Employee contribution rate	8.75%	9.50%
(c)	Employer normal cost rate (a - b)	1.42%	1.59%
10.	Employer contribution rate as percent of payroll		
(a)	Employer normal cost rate	1.42%	1.59%
(b)	Amortization payments (8 / 7)	16.98%	18.05%
(c)	Total (a + b)	18.40%	19.64%
11.	Estimated employer contribution amount (7 x 10(c))	\$ 120,040,949	\$ 183,190,533

Schedule of Funding Progress *
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability ²	Unfunded Actuarial Accrued Liability ³ (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(3)-(2) (4)	(2)/(3) (5)	(6)	(7)
State Employees						
June 30, 1997	\$1,810,447,649	\$2,312,563,765	\$502,116,116	78.3%	\$443,709,290	113.2%
June 30, 1998	2,075,619,320	2,576,282,134	500,662,814	80.6%	477,319,627	104.9%
June 30, 1999 ¹	2,201,890,748	2,607,397,329	405,506,581	84.4%	494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,087,585	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
Teachers						
June 30, 1997	2,626,621,502	3,579,652,537	953,031,035	73.4%	604,076,573	157.8%
June 30, 1998	3,045,858,851	3,999,722,806	953,863,955	76.2%	636,246,593	149.9%
June 30, 1999 ¹	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	105.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	120.2%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%

¹Restated numbers based on Entry Age Normal funding method

²Frozen Actuarial Liability for plan years 1998 and prior

³Unfunded Frozen Actuarial Liability for plan years 1998 and prior

^{*}Restated June 30, 2003 based on adoption of Chapter 117 of the Public Laws of 2005, Article 7.

Schedules Of Contributions From The Employers And Other Contributing Entity

ERS Fiscal Year Ended June 30	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2004	\$55,699,588	100%	\$45,039,279	100%	\$70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%
1998	51,310,092	100%	35,005,382	100%	52,040,574	100%
1997	45,403,827	100%	34,871,679	100%	48,945,845	100%

Notes to Required Supplementary Information (as required by GASB #25)

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	25 years	25 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return *	8.25%	8.25%
Projected salary increase *	4.50% to 8.25%	4.50% to 17.00%
* Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

OTHER BENEFITS

In addition to benefits provided to State employees by the State Retirement System described above, State employees since 1956 have also been covered under the provisions of the Federal Old-Age and Survivor's Insurance Program (Title II of the Federal Social Security Act). Benefit rates, State, and member contributions are governed by federal law. The State is also subject to the unemployment compensation provisions of the federal employment security law. Contributions under this program by the State are made by annual appropriation of actual benefit costs incurred rather than a percentage of payroll.

In anticipation of the implementation of GASB Statement 43, "Other Post Employment Benefits," in December 2003, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits based upon standards proposed at that time. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimate rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 Session of the General Assembly.

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the State seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 300 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. Gen. Laws § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2004, and the report thereon by the Auditor General, a certified public account appointed by the Joint Committee on Legislative Services.

**Exhibit A - Audited Financial Statements of the State for the Fiscal Year Ended
June 30, 2004**

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ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
ernest.almonte@oag.ri.gov

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ♦ INTEGRITY
- ♦ RELIABILITY
- ♦ INDEPENDENCE
- ♦ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2004 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 3% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 49% of the assets and 4% of the revenues of the business-type activities; and
- certain component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, is based solely on the reports of the other auditors.

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

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

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2004. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, depreciable intangible, and building improvement capital asset categories represent \$128 million or 10% of total recorded governmental activities capital assets of \$1,257 million at June 30, 2004.

We were unable to obtain sufficient evidence regarding the completeness of accounts payable and related expenditures, federal revenue, and federal receivables reported for the Intermodal Surface Transportation Fund, a major fund, due to weaknesses in accounting controls over the accumulation and reporting of information included in these account classifications.

Management has not presented encumbrances outstanding at June 30, 2004 as a reserved component of fund balance within the General, Intermodal Surface Transportation, and Grant Anticipation Revenue Vehicle Fund (GARVEE) major governmental funds and other non-major governmental funds included in the aggregate remaining fund information or disclosed such amounts in the notes to the basic financial statements as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the reserved and unreserved components of fund balance of these governmental funds is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, on the Intermodal Surface Transportation Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and related expenditures, federal revenue and federal receivables, and except for the omission of encumbrances outstanding at June 30, 2004 as a component of reserved fund balance of the General, Intermodal Surface Transportation, and GARVEE major governmental funds and non-major governmental funds included in the aggregate remaining fund information, based on our audit and the reports of other

Finance Committee of the House of Representatives
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auditors, the financial statements referred to above, present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the State as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, except for the effects of such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, depreciable intangible, and building improvement components of capital assets, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate discretely presented component units of the State as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1 and 17 to the basic financial statements, the State adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14* effective July 1, 2003. Beginning net assets of the discretely presented component units on the government-wide statement of net assets were increased by \$82.6 million to include foundations of the State colleges and university.

As provided by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance will be included in the State's *Single Audit Report*.

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

The Management's Discussion and Analysis, on pages A-5 through A-16, the Budgetary Comparison Schedules on pages A-79 through A-105, and the Schedules of Funding Progress on page A-106 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE
Auditor General

July 29, 2005

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets** The total assets of the State exceeded total liabilities at fiscal year ended June 30, 2004 by \$147.8 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$996.0) million was reported as unrestricted net assets, \$552.9 million was restricted net assets, and \$590.7 million was invested in capital assets net of related debt. Net assets of the governmental activities increased, after the restatement as detailed in Note 17, by \$112.8 million for the fiscal year ended June 30, 2004. This increase is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated."
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by \$77.5 million in fiscal year 2004. Net assets of governmental activities changed by \$112.8 million, while net assets of the business-type activities changed by (\$35.3) million. The primary reason for the difference in the change in governmental activities was that taxes increased by \$142.1 million. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

Fund Financial Statements

- State's governmental funds reported a combined ending fund balance of \$709.6 million, an increase of \$251.5 million in comparison with the previous fiscal year. The primary reason for this is the \$256.9 million fund balance in the GARVEE Fund.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$24.5 million, a decrease of \$18.1 million in comparison with the previous fiscal year.
- The Budget Reserve Account ended the fiscal year with a balance of \$84.3 million, an increase of \$0.7 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$36.4 million, which was an increase of \$12.3 million from the previous year.
- The R.I. Temporary Disability Insurance Fund ended the current fiscal year with a 14.2% increase of \$16.2 million over last year. The fund balance at year-end was \$130.3 million.
- The GARVEE Fund ended its first year of operations with a fund balance of \$256.9 million of which \$7.2 million is reserved for debt.
- The Rhode Island State Lottery transferred \$281.1 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$32.1 million in comparison with the previous fiscal year.

Management's Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Changes in Presentation

For the fiscal year ended June 30, 2004, the Bond Capital Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

On the Statement of Net Assets, the amount reported as Investment in Capital Assets, Net of Related Debt was increased and the amount reported as Unrestricted Net Assets was decreased by \$284.0 million, which was the cash balance in certain capital projects funds.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of government activities:

Management's Discussion and Analysis

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Lottery Commission, R.I. Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. The State has 20 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

Governmental funds include the general fund and special revenue, capital projects, debt service and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and*

Management's Discussion and Analysis

Analysis – for State and Local Governments defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund, R.I. Temporary Disability Insurance Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of this report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's 15 internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of this report.
- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of this report.

Management's Discussion and Analysis

Major Features of the Basic Financial Statements				
	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	Activities of the State that are not proprietary or fiduciary	Activities of the State that are operated similar to private businesses	Instances in which the State is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of net assets Statement of changes in fund net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally mandated budget.

Other Supplementary Information

Other supplementary information includes the combining financial statements for nonmajor governmental funds, grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds, discretely presented component units and the statistical section.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$147.8 million at the end of fiscal year 2004, compared to \$70.2 million (after the restatement as detailed in Note 17) at the end of the prior fiscal year. The primary reasons for the

Management's Discussion and Analysis

\$109.2 million decrease in the Governmental Activities unrestricted net assets are the change in presentation noted above and an increase in debt not related to capital assets.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) recorded for fiscal years 2002 through 2004, less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

State of Rhode Island's Net Assets as of June 30, 2004 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 1,257,114	\$ 967,379	\$ 276,030	\$ 312,155	\$ 1,533,144	\$ 1,279,534
Capital assets	1,256,951	1,086,556	199,644	208,273	1,456,595	1,294,829
Total assets	2,514,065	2,053,935	475,674	520,428	2,989,739	2,574,363
Long-term liabilities outstanding	1,868,542	1,599,965	286,424	294,364	2,154,966	1,894,329
Other liabilities	650,086	571,311	36,915	38,471	687,001	609,782
Total liabilities	2,518,628	2,171,276	323,339	332,835	2,841,967	2,504,111
Net assets:						
Invested in capital assets, net of related debt	675,696	481,460	(84,910)	(83,896)	590,786	397,564
Restricted	301,346	273,559	251,596	283,944	552,942	557,503
Unrestricted	(981,605)	(872,360)	(14,351)	(12,455)	(995,956)	(884,815)
Total net assets	\$ (4,563)	\$ (117,341)	\$ 152,335	\$ 187,593	\$ 147,772	\$ 70,252

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used.

Changes in Net Assets

The State's net assets increased by \$77.5 million during the current fiscal year. Total revenues of \$6,558.2 million were more than expenses of \$6,480.7 million. Approximately 37.9% of the State's total revenue came from taxes, while 28.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 30.9% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (37.4%) and intergovernmental (16.2%). In fiscal year 2004, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,623.4 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2004 exceeded expenses by \$213.2 million.

Management's Discussion and Analysis

State of Rhode Island - Changes in Net Assets For the Fiscal Year Ended June 30, 2004 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 342,366	\$ 313,733	\$ 1,684,585	\$ 1,473,723	\$ 2,026,951	\$ 1,787,456
Operating grants and contributions	1,703,526	1,452,834	29,492	45,712	1,733,018	1,498,546
Capital grants and contributions	156,372	191,993			156,372	191,993
General revenues:						
Taxes	2,477,453	2,335,329			2,477,453	2,335,329
Interest	9,812	7,668	12,884	17,336	22,696	25,004
Other	136,122	160,547	5,568	5,354	141,690	165,901
Total revenues	4,825,651	4,462,104	1,732,529	1,542,125	6,558,180	6,004,229
Program expenses:						
General government	474,640	459,989			474,640	459,989
Human services	2,420,998	2,244,980			2,420,998	2,244,980
Education	75,654	103,476			75,654	103,476
Public safety	321,015	309,569			321,015	309,569
Natural resources	61,839	67,597			61,839	67,597
Transportation	173,935	170,082			173,935	170,082
Intergovernmental	1,047,537	947,792			1,047,537	947,792
Grants	299,381	291,208			299,381	291,208
Interest	104,760	98,831			104,760	98,831
Lottery			1,200,059	1,054,764	1,200,059	1,054,764
Convention Center			62,622	59,372	62,622	59,372
Employment insurance			238,220	262,585	238,220	262,585
Total expenses:	4,979,759	4,693,524	1,500,901	1,376,721	6,480,660	6,070,245
Increase (decrease) in net assets before transfers and special items	(154,108)	(231,420)	231,628	165,404	77,520	(66,016)
Transfers	266,886	235,064	(266,886)	(235,064)		
Special items		1,511				1,511
Change in net assets	112,778	5,155	(35,258)	(69,660)	77,520	(64,505)
Net assets - Beginning	(117,341)	(110,446)	187,593	257,253	70,252	146,807
Cumulative effect of prior period adjustments		(12,050)				(12,050)
Net assets - Beginning, as restated	(117,341)	(122,496)	187,593	257,253	70,252	134,757
Net assets - Ending	\$ (4,563)	\$ (117,341)	\$ 152,335	\$ 187,593	\$ 147,772	\$ 70,252

Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$709.6 million, an increase of \$251.5 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$84.3 million for a "rainy day" account, (2) \$47.5 million for continuing appropriations, (3) \$85.3 million principally for liquidating debt, (4) \$130.3 million for employment insurance programs

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and (5) \$1.5 million for other restricted purposes. Approximately 47.4% (\$336.3 million) of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$24.5 million, while total fund balance was \$156.3 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 0.5% of total General Fund expenditures, while total fund balance represent 3.4% of the same amount. The General Fund's unreserved fund balance decreased from \$42.6 million to \$24.5 million, a decrease of \$18.1 million during the current fiscal year. This is primarily attributed to the appropriation of the FY2003 closing surplus for program expenditures in FY04.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$36.4 million, while the total fund balance was \$37.8 million. Total fund balance of the ISTEA fund increased by \$12.3 million during the current fiscal year.

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended its first year of operation with a fund balance of \$256.9 of which \$7.2 million is reserved for debt.

R.I. Temporary Disability Insurance Fund. This fund is responsible to account for the employee tax on wages which are levied to pay benefits to covered workers who are absent due to non job-related illnesses. The ending fund balance for the current fiscal year was \$130.3 million. It represents an increase of \$16.2 million or 14.2% over last year.

General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenues must be imposed. Certain agencies have federal programs that are entitlements, which must continue to receive the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$35.5 million (1.27%) between the original budget and the final budget. General revenue appropriations decreased from the original budget by \$2.0 million (0.08%). Some significant changes between the estimated general revenue receipts and general revenue appropriations are listed below.

Management's Discussion and Analysis

- Personal income tax increased by \$31.6 million (3%)
- Business corporation tax increased by \$14.9 million (22%)
- Public gross earnings tax increased by \$7.2 million (9%)
- Financial institutions tax decreased by \$4.5 million (300%)
- Departmental general revenue increased by \$6.8 million (2%)
- General revenue appropriations decreased in the Department of Administration by \$20.8 million
- General revenue appropriations increased in the Department of Corrections by \$5.2 million

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$1,456.6 million, net of accumulated depreciation of \$481.2 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 12.5 % in terms of net book value.

Actual expenditures to purchase or construct capital assets were \$203.7 million for the year. Of this amount, \$137.4 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$52.3 million.

State of Rhode Island's Capital Assets as of June 30, 2004 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital assets not being depreciated						
Land	\$ 322,369	\$ 382,579	\$ 38,032	\$ 38,032	\$ 360,401	\$ 420,611
Intangibles	85,564				85,564	
Construction in progress	82,810	102,881	1,189		83,999	102,881
Total capital assets not being depreciated	490,743	485,460	39,221	38,032	529,964	523,492
Capital assets being depreciated						
Land improvements	3,601	3,601			3,601	3,601
Buildings	429,982	374,127	229,813	229,748	659,795	603,875
Building improvements	198,632	198,449			198,632	198,449
Equipment	158,399	148,924	24,722	23,571	183,121	172,495
Intangibles	898				898	
Infrastructure	361,850	224,490			361,850	224,490
	1,153,362	949,591	254,535	253,319	1,407,897	1,202,910
Less: Accumulated depreciation	387,154	348,495	94,113	83,078	481,267	431,573
Total capital assets being depreciated	766,208	601,096	160,422	170,241	926,630	771,337
Total capital assets (net)	\$ 1,256,951	\$ 1,086,556	\$ 199,643	\$ 208,273	\$ 1,456,594	\$ 1,294,829

Additional information on the State's capital assets can be found in the notes to the financial statements of this report.

Management's Discussion and Analysis

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$1,794.0 million of which \$763.0 million is general obligation debt, \$264.0 million is special obligation debt and \$767.0 million is debt of the blended component units. The State's total bonded debt increased by \$284.7 million during the current fiscal year. This increase is the net of a \$39.7 million increase in general obligation debt, an increase of \$264.0 million in special obligation debt and a decrease of \$19.0 million in the blended component units. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$79.7 million of general obligation bonds, \$65.8 million of general obligation refunding bonds and \$269.8 million of special obligation bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's). Of the \$269.8 million of special obligation bonds, \$53.0 million are supported by dedicated future gasoline tax revenue and \$216.8 million are supported by future federal revenue. The proceeds and related expenditures of this special obligation debt are accounted for in the GARVEE Fund.

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$238.7 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Economic Factors

The State's economy has continued to perform well. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 5,100 jobs, or 1.1 percent, in FY 2004. In FY 2003, Rhode Island gained 3,500 jobs, an increase of 0.7 percent over FY 2002. On a calendar year basis, Rhode Island added 9,000 jobs in 2003 and 2004. The May 2005 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 495,200 in 2005, an increase of 6,800 jobs, or 1.4 percent, over 2004, and 503,100 in 2006, an increase of 7,900 jobs, or 1.6 percent, over projected 2005.

According to Economy.com's April 2005 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent job gains are a result of "an acceleration in its (the State's) expansion. This improvement is quite broad based and can be seen in all major sectors of the economy." Although the expansion is widespread, the strongest sectors have been financial services, leisure and hospitality, and education and health services. The education and health services sector accounts for 19.0 percent of Rhode Island total non-farm employment well above the U.S. average of 12.5 percent. Rhode Island construction employment remains strong bolstered by "a booming housing market" and "government spending on road improvement projects". Finally, the State's manufacturing sector has begun to stabilize after an employment decline of 1.5 percent in 2004. Rising demand, particularly in export markets which rose by 6.0 percent year-over-year in the third quarter of 2004, has "forced manufacturers to increase the

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workweek for production workers” which is typically “a precursor to stronger hiring, or at least, the end of layoffs.”

Rhode Island personal income growth has also accelerated over the past year, however, the gap between Rhode Island and U.S. personal income growth has narrowed during this period. In CY 2003, Rhode Island personal income growth was 3.9 percent vs. 3.2 percent for U.S. personal income growth, a difference of 70 basis points. In CY 2004, Rhode Island personal income growth was 5.7 percent as was U.S. personal income growth. The elimination of the gap between Rhode Island and U.S. personal income growth rates is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

Economy.com (4/2005) remains “optimistic about a favorable near-term outlook” for Rhode Island’s economy with payroll growth expected “to pick up pace in 2005 and employment to rise a solid 1.1%.” One of the catalysts for near- to medium-term growth remains rising national defense spending. Economy.com (4/2005) notes that “Electric Boat continues to win federal contracts to retrofit submarines for use in special operations and surveillance” and, in addition, “Raytheon is also enjoying more business from a larger defense budget given its emphasis on surveillance and control systems.” Finally, the national defense build-up is moving the State’s manufacturing sector into a much better position to support growth in the Rhode Island economy. With the assistance of the Rhode Island Manufacturing Extension Services, “area businesses with little history of defense work” anticipate capturing a significant part of the U.S. Department of Defense’s increased spending.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State’s long term economic performance. According to Economy.com (4/2005), “[T]he state has the necessary ingredients for a successful biotech agglomeration: dynamic research institutions, federal grant money, and a group of leading companies and their associated skilled labor force.” In 2002, the Brown University Medical School won \$90 million in research grants from the National Institutes of Health. The State’s voters approved a \$50 million bond referendum for the construction of the Center for Biotechnology and Life Sciences at the University of Rhode Island. The presence and proposed expansion of the Naval Undersea Warfare Center in Newport further augments the requisite “cutting edge knowledge base” necessary for a successful biotech cluster. Finally, Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding from 300 to 400 jobs.

One of the biggest drags on the State’s economic performance is the high tax burden imposed on Rhode Island businesses and households. Economy.com (4/2005) reports that, “according to the fourth annual Economic Outlook Survey conducted by Sovereign Bank and the Greater Providence Chamber of Commerce, 83% of business owners in Providence feel that their greatest challenge is taxes.” In 2005, the Tax Foundation projected that, based on a net national product definition of personal income and a geographical distribution of tax incidence, Rhode Island had the 4th highest effective state and local tax burden in 2005, a substantial increase from its rank of 31 in 1970. High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island’s heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage

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entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. As of fiscal year 1999, the State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2004
(Expressed in Thousands)

	Primary Government			Component
	Governmental	Business - Type	Totals	Units
	Activities	Activities		
Assets				
Current assets:				
Cash and cash equivalents	\$ 411,193	\$ 18,223	\$ 429,416	\$ 701,578
Funds on deposit with fiscal agent	265,238	184,767	450,005	
Investments	74,887	47	74,934	888,943
Receivables (net)	278,938	52,040	330,978	1,079,495
Due from primary government				3,096
Due from component units	4,860		4,860	
Internal balances	4,088	(4,088)		
Due from other governments and agencies	140,654	1,245	141,899	7,692
Loans to component units	3,400		3,400	
Inventories	2,289	1,049	3,338	7,502
Other assets	37,005	1,156	38,161	7,931
Total current assets	1,222,552	254,439	1,476,991	2,696,237
Noncurrent assets:				
Investments		17,174	17,174	163,679
Receivables (net)	475		475	1,188,338
Due from component units	23,819		23,819	
Capital assets - nondepreciable	490,743	39,221	529,964	342,265
Capital assets - depreciable (net)	766,208	160,423	926,631	983,102
Lease receivable				4,730
Other assets	10,268	4,417	14,685	162,452
Total noncurrent assets	1,291,513	221,235	1,512,748	2,844,566
Total assets	2,514,065	475,674	2,989,739	5,540,803
Liabilities				
Current Liabilities:				
Cash overdraft	12,269		12,269	649
Accounts payable	313,770	12,408	326,178	72,447
Due to primary government				795
Due to component units	1,507		1,507	602
Due to other governments and agencies		1,960	1,960	820
Accrued expenses	70,034	4,870	74,904	53,386
Deferred revenue	10,916	1,909	12,825	25,360
Other current liabilities	84,649		84,649	8,068
Current portion of long-term debt	156,941	9,533	166,474	290,456
Obligation for unpaid prize awards		6,235	6,235	
Total current liabilities	650,086	36,915	687,001	452,584
Noncurrent Liabilities:				
Due to other governments and agencies	6,000		6,000	4,177
Accrued liabilities				33,613
Deferred revenue		11,250	11,250	4,609
Notes payable				4,445
Loans payable				179,610
Obligations under capital lease	93,054		93,054	20,087
Compensated absences	13,288		13,288	22,550
Bonds payable	1,720,447	275,174	1,995,621	2,872,963
Other liabilities	35,753		35,753	289,507
Total noncurrent liabilities	1,868,542	286,424	2,154,966	3,431,561
Total liabilities	2,518,628	323,339	2,841,967	3,884,145
Net Assets				
Invested in capital assets, net of related debt	675,696	(84,910)	590,786	693,493
Restricted for:				
Budget Reserve	84,298		84,298	
State infrastructure bank	1,354		1,354	
Debt	85,336	23,763	109,099	686,121
Self-insurance	100		100	
Employment Insurance Programs	130,258	227,833	358,091	
Unrestricted	(981,605)	(14,351)	(995,956)	277,044
Total net assets	\$ (4,563)	\$ 152,335	\$ 147,772	\$ 1,656,658

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2004
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
Primary government:								
Governmental activities:								
General government	\$ 474,640	\$ 137,913	\$ 118,147	\$ 35	\$ (218,545)	\$	\$ (218,545)	\$
Human services	2,420,998	124,716	1,339,603	119	(956,560)		(956,560)	
Education	75,654	3,320	154,589	2	82,257		82,257	
Public safety	321,015	43,487	34,839	717	(241,972)		(241,972)	
Natural resources	61,839	31,191	16,486	10,857	(3,305)		(3,305)	
Transportation	173,935	1,739	39,862	144,642	12,308		12,308	
Intergovernmental	1,047,537				(1,047,537)		(1,047,537)	
Grants	299,381				(299,381)		(299,381)	
Interest and other charges	104,760				(104,760)		(104,760)	
Total governmental activities	4,979,759	342,366	1,703,526	156,372	(2,777,495)		(2,777,495)	
Business-type activities:								
State lottery	1,200,059	1,480,625				280,566	280,566	
Convention Center	62,622	40,265				(22,357)	(22,357)	
Employment security	238,220	163,695	29,492			(45,033)	(45,033)	
Total business-type activities	1,500,901	1,684,585	29,492			213,176	213,176	
Total primary government	\$ 6,480,660	\$ 2,026,951	\$ 1,733,018	\$ 156,372	(2,777,495)	213,176	(2,564,319)	
Component units	\$ 999,351	\$ 991,804	\$ 31,040	\$ 37,356				60,849
General Revenues:								
Taxes					2,477,453		2,477,453	
Interest and investment earnings					9,812	12,884	22,696	37,236
Miscellaneous					136,122	5,568	141,690	(2,048)
Special or Extraordinary Items								(1,630)
Transfers					266,886	(266,886)		
Total general revenues, special or extraordinary items, and transfers					2,890,273	(248,434)	2,641,839	33,558
Change in net assets					112,778	(35,258)	77,520	94,407
Net assets - beginning, as restated					(117,341)	187,593	70,252	1,562,251
Net assets - ending					\$ (4,563)	\$ 152,335	\$ 147,772	\$ 1,656,658

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Balance Sheet

Governmental Funds

June 30, 2004

(Expressed in Thousands)

	General	Intermodal Surface Transportation	R.I. Temporary Disability	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 226,697	\$ 19,575	\$ 86,598	\$	\$ 72,393	\$ 405,263
Funds on deposit with fiscal agent				259,255	5,983	265,238
Investments					74,887	74,887
Receivables (net)	216,846	12,368	44,901	925		275,040
Due from other funds	7,654	9,960			167	17,781
Due from component units	717	24			25	766
Due from other governments and agencies	93,788	42,624			4,242	140,654
Loans to other funds	118					118
Loans to component units	3,400					3,400
Other assets	34,366	400			1,493	36,259
Total assets	583,586	84,951	131,499	260,180	159,190	1,219,406
Liabilities and Fund Balances						
Liabilities						
Cash overdraft					11,039	11,039
Accounts payable	271,947	28,178	53	3,142	4,988	308,308
Due to other funds			1,188	113	12,881	14,182
Due to component units	35	1,472				1,507
Loans from other funds					18	18
Accrued expenses	51,507					51,507
Deferred revenue	21,529	17,006			66	38,601
Other liabilities	82,274	498			1,877	84,649
Total liabilities	427,292	47,154	1,241	3,255	30,869	509,811
Fund Balances						
Reserved for:						
Budget reserve	84,298					84,298
Appropriations carried forward	47,545					47,545
Debt				7,230	78,106	85,336
Self-insurance					100	100
State infrastructure bank		1,354				1,354
Employment Insurance Programs			130,258			130,258
Unreserved, reported in:						
General fund	24,451					24,451
Special revenue funds		36,443			15	36,458
Capital projects funds				249,695	49,225	298,920
Permanent fund					875	875
Total fund balances	156,294	37,797	130,258	256,925	128,321	709,595
Total liabilities and fund balances	\$ 583,586	\$ 84,951	\$ 131,499	\$ 260,180	\$ 159,190	\$ 1,219,406

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to Statement of Net Assets for Governmental Activities
June 30, 2004
(Expressed in Thousands)

Fund Balance of Governmental Funds	\$ 709,595
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.	1,253,590
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Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.	(2,011,634)
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Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.	35,251
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds is reported with governmental activities.	8,635
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Net Assets - Governmental Activities	<u>\$ (4,563)</u>
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The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	General	Intermodal Surface Transportation	R.I. Temporary Disability	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 2,156,633	\$ 142,487	\$ 178,758	\$	\$	\$ 2,477,878
Licenses, fines, sales, and services	239,263	69			2,948	242,280
Departmental restricted revenue	105,737	1,670				107,407
Federal grants	1,664,496	167,207			15,497	1,847,200
Income from investments		81	864	3,775	5,590	10,310
Other revenues	45,136	1,970	224		45,721	93,051
Total operating revenues	4,211,265	313,484	179,846	3,775	69,756	4,778,126
Expenditures:						
Current:						
General government	297,662		162,462		1,617	461,741
Human services	2,409,512				262	2,409,774
Education	71,990				848	72,838
Public safety	311,642				59	311,701
Natural resources	57,916				1,762	59,678
Transportation		161,883			91	161,974
Capital outlays	27,696	115,383	154	31,945	25,702	200,880
Intergovernmental	1,046,510	861			166	1,047,537
Grants					6,145	6,145
Debt service:						
Principal	66,557			5,625	3,710	75,892
Interest and other charges	52,483			9,421	45,816	107,720
Total operating expenditures	4,341,968	278,127	162,616	46,991	86,178	4,915,880
Excess (deficiency) of revenues over (under) expenditures	(130,703)	35,357	17,230	(43,216)	(16,422)	(137,754)
Nonoperating revenues (expenditures):						
Bonds and notes issued				269,835	145,600	415,435
Premium and accrued interest				20,807	9,290	30,097
Operating transfers in	382,593	64,288		9,499	56,976	513,356
Operating transfers in from component units	15,395				173	15,568
Other	25,391					25,391
Payment to refunded bonds escrow agent					(72,160)	(72,160)
Operating transfers out	(79,054)	(54,996)	(1,066)		(110,130)	(245,246)
Operating transfers out to component units	(229,168)	(32,306)			(31,762)	(293,236)
Total nonoperating revenues (expenditures) and other financing sources (uses)	115,157	(23,014)	(1,066)	300,141	(2,013)	389,205
Change in fund balances	(15,546)	12,343	16,164	256,925	(18,435)	251,451
Fund balances - beginning	171,840	25,454	114,094		146,756	458,144
Fund balances - ending	\$ 156,294	\$ 37,797	\$ 130,258	\$ 256,925	\$ 128,321	\$ 709,595

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004
(Expressed in Thousands)

Change in Fund Balance - Governmental Funds	\$ 251,451
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.	170,957
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Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	(300,887)
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Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.	(5,717)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.	(3,026)
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Change in Net Assets - Governmental Activities	<u>\$ 112,778</u>
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The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2004
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	\$ 7,957	\$ 9,146	\$ 1,120	\$ 18,223	\$ 5,930
Funds on deposit with fiscal agent			184,767	184,767	
Investments	47			47	
Receivables (net)	6,197	1,821	44,022	52,040	3,898
Due from other funds					1,943
Due from other governments and agencies			1,245	1,245	
Inventories	1,049			1,049	2,289
Other assets	223	933		1,156	746
Total current assets	15,473	11,900	231,154	258,527	14,806
Noncurrent assets:					
Investments		17,174		17,174	
Capital assets - nondepreciable		39,221		39,221	
Capital assets - depreciable (net)	1,707	158,716		160,423	3,361
Other assets		4,417		4,417	475
Total noncurrent assets	1,707	219,528		221,235	3,836
Total assets	17,180	231,428	231,154	479,762	18,642
Liabilities					
Current Liabilities					
Cash overdraft					1,230
Accounts payable	8,702	3,706		12,408	5,789
Due to other funds	1,697	1,030	1,361	4,088	1,454
Due to other governments and agencies			1,960	1,960	
Loans from other funds					100
Accrued expenses	381	4,489		4,870	
Deferred revenue	790	1,119		1,909	
Other current liabilities					1,434
Notes payable		153		153	
Bonds payable		9,380		9,380	
Obligations under capital lease					720
Obligation for unpaid prize awards	6,235			6,235	
Total current liabilities	17,805	19,877	3,321	41,003	10,727
Noncurrent Liabilities:					
Deferred contract revenue	11,250			11,250	
Obligations under capital lease					112
Bonds payable		275,174		275,174	
Total noncurrent liabilities	11,250	275,174		286,424	112
Total liabilities	29,055	295,051	3,321	327,427	10,839
Net Assets					
Invested in capital assets, net of related deb	1,707	(86,617)		(84,910)	2,529
Restricted for:					
Debt		23,763		23,763	
Employment Insurance Program			227,833	227,833	
Unrestricted	(13,582)	(769)		(14,351)	5,274
Total net assets	\$ (11,875)	\$ (63,623)	\$ 227,833	\$ 152,335	\$ 7,803

The notes to the financial statements are an integral part of this statement

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,480,625	\$ 39,632	\$ 162,575	\$ 1,682,832	\$ 96,296
Grants			29,492	29,492	
Miscellaneous		633	1,120	1,753	
Total operating revenues	1,480,625	40,265	193,187	1,714,077	96,296
Operating expenses:					
Personal services	3,626	15,496		19,122	13,589
Supplies, materials, and services	175,420	19,009		194,429	84,621
Prize awards	1,020,683			1,020,683	
Depreciation	330	11,500		11,830	705
Benefits paid			230,887	230,887	
Total operating expenses	1,200,059	46,005	230,887	1,476,951	98,915
Operating income (loss)	280,566	(5,740)	(37,700)	237,126	(2,619)
Nonoperating revenues (expenses):					
Interest revenue		1,015	11,869	12,884	21
Other nonoperating revenue	1,314		4,254	5,568	
Interest expense		(16,617)		(16,617)	(61)
Other nonoperating expenses			(7,333)	(7,333)	25
Total nonoperating revenue (expenses)	1,314	(15,602)	8,790	(5,498)	(15)
Net income (loss) before transfers	281,880	(21,342)	(28,910)	231,628	(2,634)
Transfers in		22,078	1,224	23,302	
Transfers out	(281,255)	(5,030)	(3,903)	(290,188)	(1,224)
Change in net assets	625	(4,294)	(31,589)	(35,258)	(3,858)
Total net assets - beginning	(12,500)	(59,329)	259,422	187,593	11,661
Total net assets - ending	\$ (11,875)	\$ (63,623)	\$ 227,833	\$ 152,335	\$ 7,803

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 1,487,294	\$ 41,158	\$ 156,838	\$ 1,685,290	\$ 100,924
Cash received from grants			29,492	29,492	
Cash payments to suppliers for goods and services	(3,950)	(19,279)		(23,229)	(84,598)
Cash payments to employees for services	(3,469)	(15,432)		(18,901)	(14,086)
Cash payments to prize winners	(1,026,771)			(1,026,771)	
Cash payments for commissions	(174,873)			(174,873)	
Cash payments for benefits			(230,950)	(230,950)	
Other operating revenue (expense)			199	199	4
Net cash provided by (used for) operating activities	278,231	6,447	(44,421)	240,257	2,244
Cash flows from noncapital financing activities:					
Loans from other funds					11,079
Repayment of loans to other funds					(11,079)
Operating transfers in		15,150	267	15,417	
Operating transfers out	(281,054)		(3,429)	(284,483)	(1,224)
Net transfers from (to) fiscal agent			47,180	47,180	
Negative cash balance implicitly financed					1,230
Net cash provided by (used for) noncapital financing activities	(281,054)	15,150	44,018	(221,886)	6
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(7,685)		(7,685)	(265)
Interest paid on capital obligations		(14,407)		(14,407)	(69)
Acquisition of capital assets	(183)	(2,617)		(2,800)	(270)
Proceeds from the disposition of capital assets		4		4	
Net cash provided by (used for) capital and related financing activities	(183)	(24,705)		(24,888)	(604)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments	295			295	
Interest on investments	251	1,015		1,266	21
Net cash provided by (used for) investing activities	546	1,015		1,561	21
Net increase (decrease) in cash and cash equivalents	(2,460)	(2,093)	(403)	(4,956)	1,667
Cash and cash equivalents, July 1	10,417	11,239	1,523	23,179	4,264
Cash and cash equivalents, June 30	\$ 7,957	\$ 9,146	\$ 1,120	\$ 18,223	\$ 5,931
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	280,566	(5,740)	(37,700)	237,126	(2,619)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	330	11,500		11,830	705
Other revenue (expense) and operating transfer in (out)			1,224	1,224	1,196
Net changes in assets and liabilities:					
Receivables, net	71	748	(7,732)	(6,913)	29,429
Operating revenue deposited directly with the fiscal agent					
Inventory	159			159	(232)
Prepaid items	13	(56)		(43)	(238)
Other assets	(25)			(25)	
Other income / expenses	191	(4)		187	
Due to / due from transactions			(213)	(213)	
Accounts and other payables	(3,386)	(107)		(3,493)	(25,492)
Accrued expenses	47	(9)		38	(505)
Deferred revenue	(211)	115		(96)	
Prize awards payable	476			476	
Total adjustments	(2,335)	12,187	(6,721)	3,131	4,863
Net cash provided by (used for) operating activities	\$ 278,231	\$ 6,447	\$ (44,421)	\$ 240,257	\$ 2,244

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Statement of Net Assets

Fiduciary Funds

June 30, 2004

(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 9,495	\$	\$ 17,076
Receivables			
Contributions	27,757		
Due from state for teachers	18,428		
Miscellaneous	3,483		
Total receivables	49,668		
Investments, at fair value			
Equity in Short-Term Investment Fund	6,526		
Equity in Pooled Trust	6,164,676		
Plan specific investments	22,629		
Other investments		1,908	61,411
Total investments before lending activities	6,193,831	1,908	61,411
Invested securities lending collateral	806,497		
Property and equipment, at cost, net of accumulated depreciation			
Line of Business System in Development	14,378		
Computer Equipment	164		
Total Property and Equipment	14,542		
Total assets	7,074,033	1,908	78,487
Liabilities			
Securities lending liability	806,497		
Accounts payable	7,643		
Deposits held for others		5	78,487
Total liabilities	814,140	5	78,487
Net assets held in trust for pension and other benefits	\$ 6,259,893	\$ 1,903	\$

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Changes in Fund Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 154,776	\$
Employer contributions	141,490	
State contributions for teachers	45,039	
Interest on service credits purchased	987	
Total contributions	<u>342,292</u>	
Investment income		
Net appreciation (depreciation) in fair value of investments	856,972	16
Interest	77,531	94
Dividends	40,538	
Other investment income	47,684	
	<u>1,022,725</u>	<u>110</u>
Less investment expense	14,139	
Net income from investing activities	<u>1,008,586</u>	<u>110</u>
Securities Lending		
Securities lending income	6,516	
Less securities lending expense	4,864	
Net securities lending income	<u>1,652</u>	
Total net investment income	<u>1,010,238</u>	<u>110</u>
Total additions	<u>1,352,530</u>	<u>110</u>
Deductions		
Benefits		
Retirement benefits	391,590	
Cost of living adjustment	96,667	
SRA Plus (option)	26,531	
Supplemental benefits	1,035	
Death benefits	3,761	
Total benefits	<u>519,584</u>	
Refund of contributions	7,852	
Administrative expense	5,476	
Distribution		95
Total deductions	<u>532,912</u>	<u>95</u>
Net increase (decrease)	819,618	15
Net assets held in trust for pension benefits		
Net assets - beginning	5,440,275	1,888
Net assets - ending	<u>\$ 6,259,893</u>	<u>\$ 1,903</u>

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
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Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Units

These component units are entities, which are legally separate from the State, but are so intertwined with the State that they are in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

State Lottery Fund (Lottery) - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the State's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

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Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC) - This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of The Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island

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College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of The Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

Rhode Island Housing and Mortgage Finance Corporation (RIHMF) - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can

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be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC) - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island Higher Education Assistance Authority (RIHEAA) - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Public Transit Authority (RIPTA) - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and State governments. For more detailed information, a copy of their financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained

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by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

Rhode Island Public Telecommunications Authority (RIPTCA) - This Authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

Rhode Island Children's Crusade for Higher Education (RICCHE) - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

Rhode Island Underground Storage Tank Review Board (RIUSTRB) - The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

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C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets. This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets. This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and all enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are

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recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, and
- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 5% of the same respective total for all funds being evaluated.

Since the activity of the ISTEAFUND and the GARVEEFUND are so closely related and the same personnel are responsible for the accounting and financial reporting for both funds, management has determined that if either fund meets the criteria of a major fund the other fund will also be reported as a major fund.

The State reports the following major funds:

General Fund. This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund. This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

R.I. Temporary Disability Insurance Fund. This fund accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

Exhibit A-34

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The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State.

Employment Security Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds. These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

Capital Projects Funds. These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

Debt Service Fund. This fund accounts for resources obtained and used for the payment of interest and principal on bonds that are funded primarily through taxes.

Permanent Fund. The Permanent School Fund accounts for certain appropriations and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types:

Internal Service Funds. These funds account for fleet management, workers' compensation, unemployment compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, purchasing, and records maintenance.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

Exhibit A-35

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Private Purpose Trust Fund. The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds. These funds account for assets held by the State pending distribution to others or pledged to the State as required by statute.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with maturity of three months or less at the time of purchase.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets. Cash overdrafts, if any, are reported as to due to other funds along with the applicable due from other funds.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities are the unexpended portion of debt instruments sold primarily for capital acquisitions and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

G. Investments

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

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The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. The Due From/(To) Others Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost. Inventories of university and colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

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L. Capital Assets

Capital assets, which include all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements. Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' estimated useful life.

Capital assets of the primary government are depreciated over the following estimated useful lives:

Assets	Years
Buildings	20-50
Land improvements	20
Infrastructure	30
Leasehold improvements	Term of Lease
Leasehold land improvements	Term of Lease
Building renovations	10-20
Trailers	10
Furniture and equipment	3-10
Computer systems	5
Motor vehicles	3-10

M. Bonds Payable

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs in the governmental activities are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the

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interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(D)).

O. Accrued Liabilities

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

P. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities.

Q. Fund Balances

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

R. Changes in Presentation

For the fiscal year ended June 30, 2004, the Bond Capital Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

On the Statement of Net Assets, the amount reported as Investment in Net Assets, Net of Related Debt was increased and the amount reported as Unrestricted Net Assets was decreased by \$284.0 million, which was the cash balance in certain capital projects funds.

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Note 2. Budgeting and Budgetary Control

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

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Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2004, the carrying amount of the State's cash deposits was \$102,963,000 and the bank balance was \$127,542,000. Of the bank balance, \$676,000 was covered by federal depository insurance and \$50,602,000 was collateralized with securities held by the pledging financial institution, as it's agent but not in the State's name. . The remaining amount, \$76,264,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$1,105,000 of certificates of deposit.

Fiduciary Trust Funds

At June 30, 2004, the carrying amount of the fiduciary trust funds' cash deposits was \$8,480,000 and the bank balance was \$9,454,000. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$1,000,000 of certificates of deposit.

Component Units

At June 30, 2004, the carrying amount of the component units' cash deposits was \$347,061,000 and the bank balance was \$353,482,000. Of the bank balance, \$3,148,000 was covered by federal depository insurance and \$57,121,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$293,213,000 was uninsured and uncollateralized.

In accordance with Chapter 35-10.1 of the General Laws, 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 60 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. None of the cash deposits of the primary government was required to be collateralized at June 30, 2004.

Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust

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funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2004.

Category 1:	Insured or registered, or securities held by the State or its agent in the State's name.
Category 2:	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
Category 3:	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 34,040	\$ 0	\$ 0	\$ 34,040
Commercial Paper	92,760	0	0	92,760
Repurchase Agreements	57,519	0	17,943	75,462
	<u>\$ 184,319</u>	<u>\$ 0</u>	<u>\$ 17,943</u>	<u>202,262</u>
Money Market Mutual Funds				216,299
				<u>418,561</u>
Less amounts classified as cash equivalents				326,453
Investments				<u>\$ 92,108</u>

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Fiduciary Funds	Category			Fair Value
	1	2	3	
U.S. Government and agency securities				
Not on security loan	\$ 498,995	\$	\$	\$ 498,995
On loan for securities collateral	3,745			3,745
Money Market				
Commercial Paper				
Repurchase Agreements	1,015			1,015
Corporate Bonds	541,984			541,984
Corporate Notes				
Municipal Bonds				
Equity Securities				
Not on security loan	915,166			915,166
On loan for securities collateral	1,288			1,288
Foreign Securities				
Not on security loan	752,886			752,886
On loan for securities collateral	4,268			4,268
Investment Agreements				
Unit Investment Trust				
Other				
	<u>\$ 2,719,347</u>	<u>\$</u>	<u>\$</u>	<u>2,719,347</u>
Money Market Mutual Funds				145,448
Investment Agreements				
Emerging Markets Equity Mutual Funds				
Real Estate and Venture Capital Limited Partnerships				352,759
Investments held by broker-dealers under securities loans with cash collateral				789,404
Securities lending short-term collateral investment pool				806,498
Underlying Securities for Reverse Repurchase Agreements				
Investments of Statutory Deposits Held in Trust				78,487
Other, principally commingled funds				2,189,796
				<u>7,081,739</u>
Less amounts classified as cash equivalents				18,092
Investments				<u>\$ 7,063,647</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 226,257	\$ 158,173	\$ 132,745	\$ 517,175
Money Market	90,699	0	24,299	114,998
Repurchase Agreements	35,520	876	28,644	65,040
Corporate Bonds	6,320	0	725	7,045
Equity Securities	60,074	995	6,078	67,147
Investment Agreements	2,202	0	0	2,202
	<u>\$ 421,072</u>	<u>\$ 160,044</u>	<u>\$ 192,491</u>	<u>773,607</u>
Money Market Mutual Funds				7,737
Investment Agreements				618,682
Other				7,113
				<u>1,407,139</u>
Less amounts classified as cash equivalents				354,517
Investments				<u>\$ 1,052,622</u>

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Derivatives and Other Similar Investments

Primary Government

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward Foreign Currency Contracts – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 25% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The System may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Mortgage-Backed Securities – The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The System may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

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Commingled Funds - Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and total return swaps.

The commingled funds may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the commingled fund when the price of a security underlying the short sale increases and the commingled fund is subject to a higher cost to purchase the security in order to cover the position.

Securities Lending

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 52 days and a weighted average maturity of 118 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2004, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$798,705,105 (fair value), and the collateral received for those securities on loan was \$816,221,400 (fair value).

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Note 4. Receivables

Receivables at June 30, 2004 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 228,441	\$ 86,377	\$	\$ 485	\$ (98,457)	\$ 216,846
Intermodal Surface Transportation	12,368					12,368
R.I. Temporary Disability	46,167	831			(2,097)	44,901
GARVEE			925			925
Internal Service		3,898		475		4,373
Total - governmental activities	<u>\$ 286,976</u>	<u>\$ 91,106</u>	<u>\$ 925</u>	<u>\$ 960</u>	<u>\$ (100,554)</u>	<u>\$ 279,413</u>
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 4,825	\$ 5,854				
Intermodal Surface Transportation		17,006				
Business-type activities:						
State Lottery	\$	\$ 6,553	\$	\$	\$ (356)	\$ 6,197
Convention Center		1,791	130		(100)	1,821
Employment Security	41,794	12,238			(10,010)	44,022
Total - business-type activities	<u>\$ 41,794</u>	<u>\$ 20,582</u>	<u>\$ 130</u>	<u>\$</u>	<u>\$ (10,466)</u>	<u>\$ 52,040</u>
Component Units	<u>\$</u>	<u>\$ 131,813</u>	<u>\$ 27,304</u>	<u>\$ 2,160,644</u>	<u>\$ (51,928)</u>	<u>\$ 2,267,833</u>

Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

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Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2004, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	\$ 7,654	\$
Intermodal Surface Transportation Fund	9,960	
RI Temporary Disability Insurance		1,188
GARVEE		113
Other		
Tobacco Settle Trust Fund	167	
Bond Capital		1,060
Cops		11,646
Debt Service Fund		175
Total Other	<u>167</u>	<u>12,881</u>
Total Governmental	<u>17,781</u>	<u>14,182</u>
Proprietary Funds		
Enterprise		
RI Lottery		1,697
RI Convention Center Authority		1,030
Employment Security Trust Fund		1,361
Total Enterprise		<u>4,088</u>
Internal Service		
Assessed Fringe Benefits		269
Central Utilities		18
Information Processing		363
Central Mail		68
Centrex		572
Howard Communications		93
Central Pharmacy	899	
Central Laundry	45	
Automotive Maintenance		51
Central Distribution Center		10
Correctional Industries	966	
Surplus Property	33	
Records Center		10
Total Internal Service	<u>1,943</u>	<u>1,454</u>
Totals	<u>\$ 19,724</u>	<u>\$ 19,724</u>

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Note 6. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government

Governmental Activities

Primary Government Governmental	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 311,413	\$ 10,956		\$ 322,369
Intangibles	71,166	14,398		85,564
Construction in progress	102,880	36,063	(56,133)	82,810
Total capital assets not being depreciated	485,459	61,417	(56,133)	490,743
Capital assets being depreciated:				
Land improvements	3,601			3,601
Buildings	374,127	55,855		429,982
Building Improvements	198,449	183		198,632
Furniture and equipment	148,484	11,792	(1,877)	158,399
Intangibles	441	457		898
Infrastructure	224,490	137,360		361,850
Total capital assets being depreciated	949,592	205,647	(1,877)	1,153,362
Less accumulated depreciation for:				
Land improvements	1,978	180		2,158
Buildings	130,262	7,781		138,043
Building Improvements	99,649	9,287		108,936
Furniture and equipment	108,850	13,361	(1,856)	120,355
Intangibles	71	134		205
Infrastructure	7,685	9,772		17,457
Total accumulated depreciation	348,495	40,515	(1,856)	387,154
Total capital assets being depreciated, net	601,097	165,132	(21)	766,208
Governmental activities capital assets, net	\$ 1,086,556	\$ 226,549	\$ (56,154)	\$ 1,256,951

Certain beginning balances were reclassified. The amounts reported above for infrastructure are only the additions for the fiscal year ended June 30, 2002 and subsequent fiscal years. As provided for in GASB Statement No. 34, the State opted to take advantage of the transition period and retroactively report its major general infrastructure assets in the fiscal year ended June 30, 2006.

The current period depreciation was charged to the governmental functions on the Statement of Activities as follows:

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General government	\$ 4,925
Human services	10,626
Education	2,611
Public safety	8,751
Natural resources	1,951
Transportation	11,651
Total depreciation expense - governmental activities	<u>\$ 40,515</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$	\$ 38,032
Construction in progress	585	1,189	(585)	1,189
Total capital assets not being depreciated	38,617	1,189	(585)	39,221
Capital assets being depreciated:				
Buildings	229,748	65		229,813
Machinery and equipment	23,571	1,564	(413)	24,722
Total capital assets being depreciated	253,319	1,629	(413)	254,535
Less accumulated depreciation	83,078	11,445	(410)	94,113
Total capital assets being depreciated, net	170,241	(9,816)	(3)	160,422
Business-type activities capital assets, net	<u>\$ 208,858</u>	<u>\$ (8,627)</u>	<u>\$ (588)</u>	<u>\$ 199,643</u>

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 84,964	\$ 5,744	\$ (3,959)	\$ 86,749
Construction in progress	190,253	101,342	(36,080)	255,515
Total capital assets not being depreciated	275,217	107,086	(40,039)	342,264
Capital assets being depreciated:				
Land improvements	939,644	32,405	(1,556)	970,493
Buildings	99,773	5,291	(8)	105,056
Machinery and equipment	219,270	27,264	(9,405)	237,129
Infrastructure	278,694	16,673	(3)	295,364
Total capital assets being depreciated	1,537,381	81,633	(10,972)	1,608,042
Less accumulated depreciation for:				
Buildings	315,845	31,834	(1,640)	346,039
Land improvements	53,137	7,917	(8)	61,046
Machinery and equipment	118,778	21,753	(8,692)	131,839
Infrastructure	82,602	5,755		88,357
Total accumulated depreciation	570,362	67,259	(10,340)	627,281
Total capital assets being depreciated, net	967,019	14,374	(632)	980,761
Total capital assets, net	<u>\$ 1,242,236</u>	<u>\$ 121,460</u>	<u>\$ (40,671)</u>	<u>\$ 1,323,025</u>

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Note 7. Long-Term Obligations

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

A. Bonds Payable

At June 30, 2004, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Proprietary Type		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 94,786	\$ 94,593	\$ 9,380	\$ 14,159	\$ 156,848	\$ 108,755
2006	95,914	96,526	9,825	13,719	244,456	102,091
2007	73,358	90,673	10,290	13,259	153,020	95,405
2008	69,561	86,007	10,775	12,776	76,991	91,090
2009	75,049	79,660	11,295	12,270	84,157	87,229
2010-2014	398,909	339,116	65,205	52,724	381,224	386,921
2015-2019	235,735	248,150	80,205	35,537	427,596	295,674
2020-2024	209,985	200,908	86,575	14,623	404,909	195,131
2025-2029		167,686	18,770	1,493	310,092	117,018
2030-2034	168,260	147,074			340,802	55,603
2035-2039		116,156			435,975	16,066
2040-2044	371,700	69,694			1,305	246
2045-2049					310	15
	<u>\$ 1,793,257</u>	<u>\$ 1,736,243</u>	<u>\$ 302,320</u>	<u>\$ 170,560</u>	<u>\$ 3,017,685</u>	<u>\$ 1,551,244</u>

Primary Government

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature from 2006 to 2009 with all interest payable at maturity.

The State issued \$269.8 million of special obligation bonds. Of the \$269.8 million of special obligation bonds, \$53.0 million are supported by dedicated future gasoline tax revenue and \$216.8 million are supported by future federal revenue. The proceeds and related expenditures of this special obligation debt are accounted for in the GARVEE Fund.

Included in the current interest bonds is \$24,865,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2011. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond

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purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2005. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to effect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (Bonds) that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended June 30, 2004, TSFC utilized \$3,710,000 of excess collections to early redeem an equal amount of outstanding bonds.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual Reports (CAFRs) with GASB Statement No. 14, *The Financial Reporting Entity* as the only guidance to a rather unique situation. Therefore, there was a lack of comparability amongst the CAFRs. GASB issued Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, which, amongst other things, made it clear that the TSFC should be blended rather than discretely presented.

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service

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of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those 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.

At June 30, 2004 general obligation bonds authorized by the voters and unissued amounted to \$158,727,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

See Note 13 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The

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remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the State's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the State.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$27,078,000 at June 30, 2004 (See Note 21). The insured mortgages are guaranteed by the State.

B. Notes Payable

The State issued \$200,000,000 of tax anticipation notes in December 2003, which were Repaid June 30, 2004.

Notes payable (expressed in thousands) at June 30, 2004 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,110
R.I. Housing and Mortgage Finance Corporation bank notes, 1.39% to 5.46% interest, payable through 2006.	112,000
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	41
	114,151
	(110,101)
Less: current payable	<u>\$ 4,050</u>

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C. Loans Payable

Component Units

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$186,228,468). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding loan from the Rhode Island State Energy Office for \$201,073 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$237,054 from the Energy Revolving Loan Fund (an internal service fund). In addition, CCRI entered into an agreement with the Quonset Point Facility and is liable for a loan in the amount of \$270,684 to pay for leasehold improvements.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets.

The State's obligation under capital leases at June 30, 2004 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Fiscal Year Ending June 30	COPS	Other	Total
2005	12,874	1,922	14,796
2006	10,858	1,922	12,780
2007	11,772		11,772
2008	11,820		11,820
2009	11,875		11,875
2010 - 2014	44,132		44,132
2015 - 2019	27,150		27,150
2020 - 2024	4,508		4,508
Total future minimum lease payments	134,989	3,844	138,833
Amount representing interest	(35,454)	(494)	(35,948)
Present value of future minimum lease payments	<u>\$ 99,535</u>	<u>\$ 3,350</u>	<u>\$ 102,885</u>

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Component Units

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the State equal to the principal and interest for airport related general obligation bonds issued by the State.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Fiscal Year Ending June 30	URI	RIC	CCRI	RIEDC	RIPTCA	NBC
2005	\$ 1,892	\$ 64	\$ 85	\$ 1,062	\$ 683	\$ 212
2006	1,720	64	89	859	505	143
2007	1,608	64	90	701	863	93
2008	1,597	63	90	409	976	45
2009	1,427	42	156	278	756	4
2010-2014	6,798		781	1,172		
2015-2019	6,313		781	0		
2020-2024	1,256		781			
Total future minimum lease payments	22,611	297	2,853	4,481	3,783	497
Amount representing interest	(6,449)	(60)	(1,021)	(566)	(458)	(43)
Present value of future minimum lease payments	<u>\$ 16,162</u>	<u>\$ 237</u>	<u>\$ 1,832</u>	<u>\$ 3,915</u>	<u>\$ 3,325</u>	<u>\$ 454</u>

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

F. Other Long-Term Liabilities

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in long-term debt. These amounts are generally payable to the federal government five years after the bond issuance date.

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The long-term debt portion of violent crimes' claims is included in long-term debt. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, capital leases for copiers at various State agencies are reported here. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2004, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	\$ 722,289	\$ 145,335	\$ (105,597)	\$ 762,027	\$ 48,766	\$ 713,261
Capital appreciation bonds	610			610		610
Accreted interest on capital appreciation bonds	5,745	1,688		7,433		7,433
Deferred costs	17,126	9,396	(1,797)	24,725		24,725
	<u>745,770</u>	<u>156,419</u>	<u>(107,394)</u>	<u>794,795</u>	<u>48,766</u>	<u>746,029</u>
RIEDC Grant Anticipation Bonds		216,805		216,805	30,755	186,050
Deferred costs		18,772	(850)	17,922		17,922
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds		53,030	(5,625)	47,405	5,150	42,255
Deferred costs		(422)		(409)		(409)
Revenue bonds - RIRBA	100,705		(15,975)	84,730	10,115	74,615
Deferred costs	7,003		(2,293)	4,710		4,710
Tobacco Settlement Asset-Backed Bonds	685,390		(3,710)	681,680		681,680
Deferred costs	(33,829)		1,424	(32,405)		(32,405)
	<u>1,505,039</u>	<u>444,604</u>	<u>(134,410)</u>	<u>1,815,233</u>	<u>94,786</u>	<u>1,720,447</u>
Bonds payable						
Certificates of Participation (COP)	108,505		(8,970)	99,535	8,185	91,350
Other capital leases	4,941		(1,591)	3,350	1,646	1,704
Obligations under capital leases	113,446		(10,561)	102,885	9,831	93,054
Compensated absences	58,502	51,972	(49,758)	60,716	47,428	13,288
Other long-term liabilities	36,910	14,045	(10,306)	40,649	4,896	35,753
	<u>\$ 1,713,897</u>	<u>\$ 510,621</u>	<u>\$ (205,035)</u>	<u>\$ 2,019,483</u>	<u>\$ 156,941</u>	<u>\$ 1,862,542</u>
Business type activities						
Revenue bonds	\$ 310,005	\$	\$ (7,685)	\$ 302,320	\$ 9,380	\$ 292,940
Add: bond premium	4,566		(308)	4,258		4,258
Less: issuance discounts	5,682		(480)	5,202		5,202
Deferred amounts on refunding	18,760		(1,938)	16,822		16,822
Bonds payable	<u>290,129</u>	<u></u>	<u>(5,575)</u>	<u>284,554</u>	<u>9,380</u>	<u>275,174</u>
Other long-term liabilities	153			153		153
	<u>\$ 290,282</u>	<u>\$</u>	<u>\$ (5,575)</u>	<u>\$ 284,707</u>	<u>\$ 9,533</u>	<u>\$ 275,174</u>

The beginning balance of the deferred costs related to general obligations bonds was restated due to errors and omissions.

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H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2004, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(includes \$285 of NBC)	\$ 357,101
Certificates of Participation	2,430
Component Units:	
R.I. Clean Water Finance Agency	5,725
R.I. Depositors Economic Protection Corporation	337,885
R.I. Economic Development Corporation	26,410
R.I. Turnpike And Bridge Authority	35,950

In February 2004, the State issued \$65,830,000 Consolidated Capital Development Loan of 2004, Refunding Series B, with interest rates ranging from 1.50% to 5.00%, maturing from 2005 through 2016. The proceeds were used to advance refund \$65,935,000 of 1992,1994 through 1999 Series A Bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 11 years by \$3,605,571 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,943,440.

On July 31, 2003, the Rhode Island Turnpike and Bridge Authority (RITBA) issued \$35,765,000 of Series 2003 A Taxable Refunding Revenue Bonds as an advance refunding of the Series 1997 Revenue Bonds. RITBA defeased the Series 1997 refunding bonds by placing \$36,790,521 on deposit with the escrow agent. The amount placed in escrow included a premium paid on the advance payment of the bonds totaling approximately \$679,000. On September 4, 2003 the escrow agent made a principal redemption of the Series 1997 Bonds totaling \$33,970,000. The final principal payment of the Series 1997 Bond was made December 1, 2003 in the amount of \$1,680,000. Accordingly, as of June 30, 2004 RITBA had no obligations related to the defeased Series 1997 Bonds. The Series 2003 A Taxable Refunding Revenue Bonds resulted in an economic savings to RITBA over the 14 ½ years of the bond obligation. The cumulative annual savings resulting from this refunding bond is approximately \$2,340,000 with a present value calculation of approximately \$1,674,000. The Series 2003 A Bonds are fixed rate bonds dated July 31, 2003. Interest is payable semi-annually on December 1 and June 1 at interest rates ranging from 1.15% to 5.23%. Principal repayments of the bond are due annually commencing on December 1, 2003 with a final payment due on December 1, 2017. The Series 2003 A Bonds will not be subject to optional redemption prior to maturity but are subject to special mandatory redemption as provided in the Series 2003 A bond agreement. As part of the 2003

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Refunding, RITBA entered into an Interest Rate Lock Transaction. On July 23, 2003 the Transaction was cancelled and RITBA received proceeds of \$1,809,500. The gain is presented in the Statement of Revenues, Expenses, and Changes in Net Assets as non-operating revenues of \$1,490,509. The difference between the proceeds received and the gain reported of approximately \$319,000 represents the cost incurred to enter into the Transaction.

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business 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. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2004 was \$113,000,000, \$1,606,092,010 and \$595,298,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

Note 8. Net Assets

Government-Wide Unrestricted Net Assets

	Governmental Funds	
Deficit	\$ (1,111,136)	
General Revenue	24,451	Unrestricted balance
Appropriations carried forward:		
General Revenues	10,146	General revenues carried forward for original purpose
Restricted Revenues	28,977	Restricted revenues carried forward for original purpose
Other	8,422	Principally capital accounts carried forward for original purpose
Special Revenue	36,458	ISTEA, Tobacco Settlement Trust, R.I. TDI Fund
		RI Economic Policy Council
Capital Projects Fund	14,928	Committed for capital projects
Permanent Fund	875	Permanent School
Internal Service Funds	5,274	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (981,605)</u>	

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Changes in General Fund Reserved Fund Balances

The State maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

	Reserved Fund Balance July 1,	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 83,648	\$ 56,198	\$ (55,548)	\$ 84,298
Appropriations carried forward				
General revenue	7,347	10,146	(7,347)	10,146
Departmental restricted revenue	27,821	28,977	(27,821)	28,977
Operating transfers in	10,718	8,422	(10,718)	8,422
Total	<u>\$ 129,534</u>	<u>\$ 103,743</u>	<u>\$ (101,434)</u>	<u>\$ 131,843</u>

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The Certificates of Participation Capital Projects Fund had a deficit fund balance of \$8.9 million at June 30, 2004. The deficit will be eliminated through the future issuance of certificates of participation.

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Note 9. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of the uncollectible amount and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Balance Sheet is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 870,203	\$ 870,145
General Business Taxes:		
Business Corporation Tax	75,874	75,866
Non-resident Contractor Tax	97	97
Franchise Tax	24	24
Gross Earnings Tax-Public Utilities	92,210	92,422
Income Tax-Financial Institutions	(7,296)	(7,296)
Tax on Insurance Companies	43,419	43,374
Tax on Deposits-Banking Institutions	1,580	1,580
Health Care Provider Assessment	11,624	11,623
Nursing Facilities Provider Assessments	28,694	28,632
Sub-total - General Business Taxes	246,226	246,322
Sales and Use Taxes:		
Sales and Use Tax	810,743	810,226
Providence Place Sales Tax	12,113	12,113
Motor Vehicle Tax	44,793	44,793
Rental Vehicle Surcharge	2,562	2,563
Fuel Use Tax on Motor Carriers	860	874
Cigarette Tax	115,480	115,480
Smokeless Tobacco Tax	1,783	1,788
Alcoholic Beverage Import Fees	10,316	10,316
Tax on Mfg. of Beers, Liquors, etc.	26	26
Sub-total - Sales and Use Taxes	998,676	998,178
Other Taxes:		
Inheritance Tax	23,904	23,939
Simulcast Wagering	2,850	2,850
Jai Alai - Pari-mutuel Betting	4	4
Jai Alai - Tax on Breakage		
Dog Racing - Pari-mutuel Betting	1,707	1,707
Dog Racing - Tax on Breakage	26	26
Realty Transfer Tax	13,025	13,025
Mobile Home Conveyance Tax	12	12
Sub-total - Other Taxes	41,528	41,563
Total - General Fund	2,156,633	2,156,208
R.I. Temporary Disability Fund	178,758	178,758
Intermodal Surface Transportation Fund		
Gasoline	142,487	142,487
Total Taxes	<u>\$ 2,477,878</u>	<u>\$ 2,477,453</u>

Exhibit A-60

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Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2004 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 45,497	Debt service
Temporary Disability	1,066	Operating assistance
Nonmajor Funds		
Tobacco Settlement Financing Corp	454	Operating assistance
Tobacco Settlement Trust Fund	1,454	Operating assistance
Bond Capital	43,759	Debt service
Debt Service	175	Debt service
Business-Type Activities		
Lottery	281,255	Net income
Convention Center	5,030	Excess debt service
Employment Security	3,903	Net income
ISTEA Fund		
Bond Capital	64,288	Infrastructure
GARVEE		
Intermodal Surface Transportation	9,499	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	55,548	Debt service or capital projects
Economic Policy Council		
General Fund	1,428	Operating assistance
Total Governmental Activities	513,356	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,224	Operating assistance
Convention Center		
General Fund	22,078	Debt service
Total operating transfers	<u>\$ 536,658</u>	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$14,006,000 for the fiscal year ended June 30, 2004.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

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The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2004:

Fiscal Year Ending June 30	
2005	12,120
2006	9,925
2007	6,365
2008	4,809
2009	4,469
2010 - 2014	13,149
2015 - 2019	9,356
Total	<u>\$ 60,193</u>

The minimum payments shown above have not been reduced by any sublease receipts.

Note 12. Commitments

Primary Government

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of

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approximately \$5,600,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$144,724,000 at June 30, 2004.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases I, II, III, and IV. The capacity of Phase I was reached in May 1993. The capacity of Phases II and III was reached in December 2002. Phase IV is expected to reach capacity during fiscal year 2005.

Phase IV consists of four eleven-acre cells of which two cells began accepting refuse in September 2000. Costs incurred in connection with the acquisition and development of Phase V total \$6,599,000 at June 30, 2004. The Corporation expects Phase V to last approximately 6 to 8 years.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II, III and IV will be approximately \$43,035,000. The liability at June 30, 2004 is approximately \$43,233,000 with \$1,357,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 92% of capacity of Phase IV has been used to date, and it is expected that full capacity will be reached in fiscal year 2005. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$20,384,127 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2004, the market value of the trust was \$32,767,441. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$21,464,000 and is recorded in the financial statements, net of the amount included in the trust fund.

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RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs incurred for this project are approximately \$6,250,000. As of June 30, 2004, the project was substantially complete and awaiting DEM approval.

RIRRC submitted a wetland alteration application to DEM in July 2001. The alteration application entails relocating the second phase of Cedar Swamp Brook, completing its separation from Sedimentation Pond 2, to the south of the proposed Phase V. Phase II of the relocation of Cedar Swamp Brook began in August 2002. The Corporation has incurred approximately \$8,800,000 of engineering and subcontracting costs for this project through June 30, 2004. The project was substantially complete at June 30, 2004 and is awaiting DEM approval.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$30,503,000 under various loan programs at June 30, 2004.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2004 remaining commitments on these contracts approximated \$1,525,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$6,235,574 at June 30, 2004.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as its share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments due on September 1, 2002, 2006 and 2007, respectively. The first installment was paid on August 30, 2002. As of June 30, 2004, the amount outstanding is \$736,637 and recorded in the Federal Fund.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$1,500,000, respectively.

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The R.I. Children's Crusade has estimated its cost of scholarships for currently enrolled students to be \$24,900,000 of which \$12,400,000 will be funded by investments and \$12,500,000 to be funded by pledged scholarships.

Note 13. Contingencies

Primary Government

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

In June 2002, the Tobacco Settlement Financing Corporation (Corporation), a blended component unit, issued revenue bonds that are the sole obligation of the Corporation. The bonds are asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The Corporation's rights to receive TSR's are expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, which include:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

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Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2004 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$260,466,777 and \$67,676,636 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,600,000 of the debt on the related economic development revenue bonds in fiscal year 2005.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2009, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

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R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2004.

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 3.75% at June 30, 2004. There was no outstanding balance as of June 30, 2004.

Note 14. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency

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denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30. Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	9.60%	26.77%	33.90%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	5.16% and 5.73%		
Annual pension cost	\$100,739	\$2,224	\$1,830
Contributions made - state employees	\$55,700	\$2,224	\$1,830
Contributions made - teachers	\$45,039		
Actuarial valuation date	June 30, 2001	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	28 years	28 years	28 years
Asset valuation method	5 Year Smoothed Market	5Year Smoothed Market	5Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.25% to 14.25%	5% to 15.00%	5.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded	\$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

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Three-Year Trend Information				
	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/02	\$ 62,565	100%	\$ 0
	6/30/03	83,384	100%	0
	6/30/04	100,739	100%	0
State Police Retirement Benefits Trust	6/30/02	2,405	100%	0
	6/30/03	2,257	100%	0
	6/30/04	2,224	100%	0
Judicial Retirement Benefits Trust	6/30/02	1,458	100%	0
	6/30/03	1,657	100%	0
	6/30/04	1,830	100%	0

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$12,245,124 during the year ended June 30, 2004.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2004 was \$4,418,938. At January 1, 2004, the most recent valuation date, the total pension benefit obligation was \$50,178,241 and net assets available for benefits were \$25,938,773. The net pension obligation as of June 30, 2004 is \$1,834,886.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 15. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$5.1 million in FY 2004. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2004, the State contributed 1.30% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2004 were \$7,799,544 net of retirees' contributions for the 4,022 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$895,098 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,044 for each of the 857 retirees covered by the plans).

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The above plans are financed on a pay-as-you-go basis.

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or “unforeseeable emergency”.

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

Note 17. Restatement of Net Assets

Certain beginning balances were restated as listed below (expressed in thousands).

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities			
Entity-wide	\$ (105,291)		\$ (105,291)
Errors and omissions		(12,050)	(12,050)
	<u>\$ (105,291)</u>	<u>\$ (12,050)</u>	<u>\$ (117,341)</u>
Component Units			
URI	\$ 156,659	\$ 71,641	\$ 228,300
RIC	41,095	9,482	50,577
CCRI	29,578	1,504	31,082
Other	1,252,292		1,252,292
	<u>\$ 1,479,624</u>	<u>\$ 82,627</u>	<u>\$ 1,562,251</u>

URI, RIC and CCRI implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* which required them to included their respective foundations in their financial statements.

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Note 18. Condensed Financial Statement Information

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

	RIHMF	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 1,853,547	\$ 900,997	\$ 38,056	\$ 194,946	\$ 2,709	\$ 104,866
Capital assets - nondepreciable			5,803	79,439		205,601
Capital assets - depreciable (net)			58,497	249,560	55	199,706
Due from primary government				601	14	
Long term debt	1,381,033	806,176	33,713	271,906		268,311
Other liabilities	219,215	29,766	3,529	10,929	1,189	19,402
Due to primary government				24		
Net assets:						
Invested in capital assets, net of related debt	18,497		30,586	138,550	55	136,539
Restricted	163,976	62,937	7,714	77,041	685	34
Unrestricted	70,826	2,118	26,814	26,096	849	85,887
Operating expenses	77,900	27,903	4,816	46,109	3,878	25,505
Depreciation, depletion, and amortization	5,934	459	1,482	15,378	15	6,266
Program revenue	61,464	33,997	12,126	61,355	4,543	50,438
Net program (expense) revenue	(22,370)	5,635	5,828	(132)	650	18,667
Interest revenue	26,109	970	(60)	5,115	7	516
Gain (loss) on sale of assets		(3)		(2,049)		
Net increase in fair value of investments		(18)	1,491			
Miscellaneous			(1,265)	(13,625)		(5,721)
Capital contributions				4,523		2,223
Transfers from primary government				12,031		
Transfers (to) primary government						
Change in net assets	3,739	5,379	5,994	5,863	657	15,685
Beginning net assets	249,560	59,676	59,120	235,824	932	206,775
Ending net assets	253,299	65,055	65,114	241,687	1,589	222,460

	RIHEBC	RIIRC	DEPCO	RIHEAA	RIPTA	RIIFC
Other assets	\$ 11,164	\$ 104,227	\$	\$ 25,005	\$ 10,735	\$ 1,280
Capital assets - nondepreciable		18,268		194	2,382	
Capital assets - depreciable (net)	109	48,227		1,304	91,132	
Due from primary government					1,472	
Long term debt		18,301				
Other liabilities	70	75,648		1,664	18,121	842
Due to primary government						
Net assets:						
Invested in capital assets, net of related debt	109	48,194		1,498	93,514	
Restricted		(9,878)		18,585		
Unrestricted	11,094	38,457		4,756	(5,914)	438
Operating expenses	1,333	43,975		21,680	71,024	34
Depreciation, depletion, and amortization	29	12,846		229	9,002	
Program revenue	1,634	62,604		16,092	38,418	(132)
Net program (expense) revenue	272	5,783		(5,817)	(41,608)	(166)
Interest revenue	80	3,346		233	20	7
Gain (loss) on sale of assets		9			(5)	
Net increase in fair value of investments						
Miscellaneous		(918)			(17)	
Capital contributions					9,181	
Transfers from primary government				11,051	30,687	
Transfers (to) primary government		(1,535)			(388)	
Change in net assets	352	6,684		5,467	(2,130)	(159)
Beginning net assets	10,851	70,089		19,372	89,730	597
Ending net assets	11,203	76,773		24,839	87,600	438

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 700,249	\$ 4,510	\$ 15,012	\$ 1,696	\$ 24,176
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	58	410	6	3,864	50
Due from primary government			8		
Long term debt	427,758		15,708	3,513	
Other liabilities	8,267	3,253	930	1,257	26,608
Due to primary government				214	
Net assets:					
Invested in capital assets, net of related debt	58	592		436	50
Restricted	255,615		(2,037)		
Unrestricted	8,609	1,256	425	961	(2,432)
Operating expenses	19,158	831	29	3,570	9,044
Depreciation, depletion, and amortization	210	14	107	621	41
Program revenue	36,795	236	264	2,379	8,201
Net program (expense) revenue	17,427	(609)	128	(1,812)	(884)
Interest revenue		37	222	157	
Gain (loss) on sale of assets					
Net increase in fair value of investments					
Miscellaneous			(993)	(158)	
Capital contributions					
Transfers from primary government				2,779	1,739
Transfers (to) primary government					
Change in net assets	17,428	(572)	(1,068)	966	855
Beginning net assets	246,854	2,420	(544)	431	(3,237)
Ending net assets	264,282	1,848	(1,612)	1,397	(2,382)

	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 171,157	\$ 33,753	\$ 10,891	\$ 3,364	\$ 4,212,340
Capital assets - nondepreciable	7,465	7,456	14,333	322	342,265
Capital assets - depreciable (net)	247,478	49,102	30,798	2,746	983,102
Due from primary government				1,001	3,096
Long term debt	129,823	20,537	11,499	1,833	3,390,111
Other liabilities	49,587	15,021	4,790	3,151	493,239
Due to primary government			557		795
Net assets:					
Invested in capital assets, net of related debt	141,511	41,185	39,050	3,069	693,493
Restricted	91,444	14,903	4,911	191	686,121
Unrestricted	13,735	(1,335)	(4,785)	(811)	277,044
Operating expenses	310,647	96,406	82,649	45,934	892,425
Depreciation, depletion, and amortization	14,674	5,101	2,384	187	74,979
Program revenue	258,980	57,229	42,714	8,998	758,335
Net program (expense) revenue	(66,341)	(44,278)	(42,319)	(37,123)	(209,069)
Interest revenue				38	36,797
Gain (loss) on sale of assets					(2,048)
Net increase in fair value of investments	1,149	1,817	241		4,680
Miscellaneous	(6,170)	(845)	(312)		(30,024)
Capital contributions	6,678	4,382	10,369		37,356
Transfers from primary government	83,074	43,100	40,115	35,692	260,268
Transfers (to) primary government					(1,923)
Change in net assets	18,390	4,176	8,094	(1,393)	94,407
Beginning net assets	228,300	50,577	31,082	3,842	1,562,251
Ending net assets	246,690	54,753	39,176	2,449	1,656,658

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Significant transactions between primary government and component units		
	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ (11,051)	Operating assistance
R.I. Economic Development Corporation	(11,453)	Operating assistance
University of Rhode Island	(82,233)	Educational assistance
Rhode Island College	(42,624)	Educational assistance
Community College of Rhode Island	(40,115)	Educational assistance
Central Falls School District	(35,635)	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	(31,231)	Operating assistance
Capital Projects		
University of Rhode Island	(11,014)	Construction, improvement or purchase of assets
Rhode Island College	(6,588)	Construction, improvement or purchase of assets
Community College of Erhode Island	(9,383)	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ (281,327)</u>	

Note 19. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

There are no funds reserved for pending claims or incurred but not reported liabilities.

Note 20. Special or Extraordinary Items

Component Units

The early retirement of certain bonds resulted in the bond amortization expense being accelerated, which resulted in an additional expense of \$863,000 being incurred. Legal and professional fees in the amount of \$342,000 were also incurred by RISLA to complete the

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transaction. The net result of the early retirement of debt is an extraordinary loss of \$1,205,000 for the fiscal year ended June 30, 2004.

The extinguishing of Series 1994 bonds from the Rhode Island Water Resources Board Corporate (RIWRBC) resulted in an extraordinary loss of \$425,000 consisting of the write off of the remaining bond issuance costs associated with the bond in the amount of \$282,000 and the payment of the required premium of \$143,000.

Note 21. Related Party Transactions

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) is a related party to the Rhode Island Higher Education Assistance Authority (RIHEAA). RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to student in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law. Lease expenses (including receptionist and mailroom costs) paid to RIHEAA for fiscal years ended June 30, 2004 and 2003 was approximately \$62,000 and \$70,000, respectively.

Under the agreement with Alliance, the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling \$5,520,848, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2004, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries.

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5 and 10 Matching Grant Program: up to \$500,000 is invested annually through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual's account established for the benefit of income-qualifying individuals. During 2004, \$500,000 was transferred to RIHEAA, and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of the unnamed beneficiaries.

During 2004, the Board of Directors authorized the transfer of \$1,797,726 to supplement amounts available for need-based scholarships under the State's grant program.

The Rhode Island Higher Education Assistance Authority is a related party of the Rhode Island Student Loan Authority (RISLA), another component unit of the State. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. Transactions with RISLA as of and during the year ended June 30, 2004 were as follows:

Guaranteed loans outstanding at June 30, 2004	\$ 576,245,000
Loans guaranteed during the year	260,581,000
Guarantee claims paid during the year	21,390,000
Rental income received during the year	92,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been received, nor have any payments for advances totaling \$27,898,790 made during the years ended June 30, 1998 through 2004 been received

Note 22. Subsequent Events

Primary Government – Governmental Activities

In April 2004, Moody's downgraded the ratings assigned to the debt obligations of the Tobacco Settlement Financing Corporation, a blended component unit, along with all other tobacco securitization debts of other jurisdictions. This action by the Moody's reflects the potential result of heightened litigation risks facing cigarette manufacturers, increasing competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

In August 2004, the State issued \$58,910,000 of lease participation certificates, for Kent County Courthouse Project, with interest rates ranging from 2.00% to 5.00%. Maturity dates are from October 2005 to October 2023.

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In December 2004, the obligor of a mortgage loan receivable (outstanding balance of approximately \$22 million as of December 1, 2004) held by the State Employees' Retirement System (the System) as a plan specific investment defaulted on its obligation. The System has a first lien on commercial real estate located in Providence, Rhode Island with a court approved appraised value of \$18.6 million. The mortgage loan receivable is guaranteed by the Rhode Island Economic Development Corporation to the extent of \$3 million. The System is pursuing its rights through the U.S. Bankruptcy Court. Management cannot estimate the likelihood or amount of loss, if any, that the plan may incur.

In April 2005, the total revenues received by the Tobacco Settlement Finance Corporation (TSFC), a blended component unit, as a result of the Tobacco Master Settlement Agreement (MSA) were \$45,315,618. Eleven of the forty-three Subsequent Participating Manufacturers (SPMs) to the MSA paid their MSA payment due April 15, 2005 into an escrow disputed account and nine SPM withheld all or part of their MSA payment due April 1, 2005. The SPMs asserted that the Independent Auditor's calculation for the MSA payment due April 15, 2005 was incorrect, primarily because it did not contain a Non-Participating Manufacturers (NPM) adjustment. The value of April payments in dispute for the Tobacco Settlement Financing Corporation is approximately \$13,685,994.07. The NPM adjustment would permit the Participating Manufacturers (PM) to reduce their MSA payments if they lose significant market share to companies who have not joined the MSA. The payment reduction is based on the percentage of market share lost to NPMs multiplied by three. To maintain their disputed payments, companies must prove first that their lost market share was due to the strictures of the MSA. Since the State of Rhode Island was the entity which signed the MSA before selling it rights to the revenue stream created by the MSA to the TSFC, the State is contesting this. Rhode Island and the other Settling States are preparing for a Significant Factors Determination (SFD) proceeding to determine whether or not the PMs have lost market share due to the MSA. Pursuant to the MSA, Rhode Island has provided a 30-day notice prior to initiating enforcement proceedings to the SPMs who failed to pay their MSA payments. Rhode Island will continue vigorously enforce the MSA and related statute.

In April 2005, the Rhode Island Convention Center sold the Westin hotel for \$95,500,000. The proceeds from the sale will be used to retire approximately \$90,000,000 in bonds.

In May 2005, the state issued \$52,335,000 of refunding bonds with interest rates ranging from 3.00% to 5.00%. Maturity dates are from August 2005 to August 2018. The proceeds of the refunding bonds were used to advance refund \$51,365,000 of State's general obligation bonds.

In May 2005, the state issued \$8,360,000 of refunding bonds with interest rates ranging from 3.00% to 4.25%. Maturity dates are from August 2005 to August 2014. The proceeds of the refunding bonds were used to advance refund \$7,985,000 of State's general obligation bonds.

In May 2005, the state issued \$56,315,000 of refunding bonds with interest rates ranging from 2.50% to 5.00%. Maturity dates are from August 2005 to August 2018. The proceeds

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State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2004

of the refunding bonds were used to advance refund \$55,510,000 State's general obligation bonds.

In May 2005, the state issued \$87,095,000 of general obligation bonds with interest rates ranged from 3.00% to 5.00% with maturity dates of February 2006 through February 2024.

In June 2005, the state issued \$51,985,000 of lease participation certificates, for Training School Project, with interest rates ranging from 3.00% to 5.00%. Maturity dates are from October 2006 to October 2024.

In June 2005, the state issued \$21,565,000 of lease participation certificates, for Traffic Tribunal Project, with interest rates ranging from 3.00% to 5.00%. Maturity dates are from October 2006 to October 2024.

In June 2005, the state issued \$6,950,000 of lease participation certificates, for State Vehicle Project, with interest rates ranging from 3.25% to 4.00%. Maturity dates are from April 2006 to April 2012.

In July 2005, the enacted budget for Fiscal Year 2006 contained, what was considered by many, significant pension reform. This reform modified the minimum age of retirement, the benefit accrual, and tied the cost of living adjustment to CPI with a maximum of 3%. These changes will apply only to those with less than 10 years of service or new employees. The estimated savings to the State are \$12,875 million related to the State employees and \$12,429 million related to the State's share of teachers' retirement.

In July 2005, the General Assembly abolished the State Lottery Commission that oversaw the operations of the State Lottery, a blended component unit, and established the State Lottery as a division of the Department of Administration.

Component Units

In August 2004, the R.I. Housing Mortgage Finance Corporation issued \$66,130,000 in housing bonds.

Since June 30, 2004, the R.I. Health and Educational Building Corporation, The R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

Since June 30, 2004, the Rhode Island Resource Recovery Corporation acquired abutters' property for approximately \$3,000,000 through a down payment of approximately \$1,000,000 and the issuance of notes payable in the amount of \$2,000,000. The RIRRC entered into a sales agreement to sell its existing Plainfield Pike location for \$2,200,000. The sales agreement is contingent upon the purchaser obtaining necessary permits for his intended use of the property.

Exhibit A-77

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2004

On August 23, 2004, the R.I. Higher Education Savings Trust, a component unit of R.I. Higher Education Assistance Authority, in connection with the closing of the JPM Plan, the 2,456 accounts in the JPM Plan (representing net assets of approximately \$25 million) were transferred from investment portfolios established under the JPM Plan to existing CollegeBound*fund* investment portfolios according to a schedule approved by the SIC.

The Quonset Development Corporation (QDC) was established by an Act of the General Assembly on July 2, 2004 to develop and manage state land for commercial purposes. Effective July 1, 2004, QDC became a governmental agency and public instrumentality of the State with distinct and certain assets and liabilities of RIEDC's general fund will be transferred to QDC. QDC will be a discretely presented component unit of RIEDC.

On July 1, 2004, the Central Falls School District entered into a loan agreement with ARAMARK Educational Services, Inc., in the amount of \$600,000 to be used for kitchen and cafeteria renovations within the School District. The loan bears an interest rate of 125% of the Prime Rate. The loan is being amortized on a straight-line basis commencing July 1, 2004 and continuing until June 2009.

In March 2005, the R.I. Clean Water Finance Agency issued \$42,960,000 In Drinking Water Bonds.

In December 2004, the R.I. Clean Water Finance Agency issued \$69,625,000 In Water Pollution Control Revolving Fund Revenue Bonds.

In December 2004, the Narragansett Bay Commission borrowed \$40,000,000 from R.I. Clean Water Finance Agency.

In June 2005, the Narragansett Bay Commission deposited \$10,977,827 in an irrevocable trust account to defease \$9,246,845 of State guaranteed bonds.

In July 2005, the Rhode Island Housing and Mortgage Finance Corporation issued \$114,070,000 in Homeownership Opportunity Bonds.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues				
General Revenues				
Personal Income Tax	\$ 853,310	\$ 885,000	\$ 870,203	(14,797)
General Business Taxes				
Business Corporations	65,060	80,000	75,972	(4,028)
Franchise	0	0	24	24
Public Utilities Gross Earnings	77,800	85,000	92,210	7,210
Financial Institutions	1,500	(3,000)	(7,296)	(4,296)
Insurance Companies	50,600	42,600	43,419	819
Bank Deposits	1,430	1,000	1,580	580
Health Care Provider Assessment	40,940	39,900	40,317	417
Sales and Use Taxes	0	0	0	
Sales and Use	812,206	821,800	822,855	1,055
Motor Vehicle	48,200	45,800	47,356	1,556
Motor Fuel	620	1,075	860	(215)
Cigarettes	119,220	117,000	117,263	263
Alcohol	10,300	10,200	10,342	142
Controlled Substances	0	0	0	0
Other Taxes				
Inheritance and Gift	30,700	24,600	23,905	(695)
Racing and Athletics	5,000	4,785	4,587	(198)
Realty Transfer Tax	8,900	12,300	13,037	737
Total Taxes	2,125,786	2,168,060	2,156,634	(11,426)
Departmental Revenue	287,038	293,900	285,005	(8,895)
Total Taxes and Departmentals	2,412,824	2,461,960	2,441,638	(20,321)
Other				
Gas Tax Transfer	6,608	8,024	7,760	(264)
Other Miscellaneous	71,342	70,400	19,706	(50,694)
Lottery	301,770	283,900	281,142	(2,758)
Unclaimed Property	12,900	16,650	17,042	392
Total Other	392,620	378,974	325,650	(53,324)
Total General Revenues	2,805,444	2,840,934	2,767,288	(73,645)
Federal Revenues	1,632,389	1,700,783	1,664,496	(36,287)
Restricted Revenues	108,229	109,393	105,737	(3,656)
Other Revenues	103,570	104,162	97,124	(7,038)
Total Revenues	4,649,632	4,755,272	4,634,645	(120,626)

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Expenditures				
Department of Administration				
Central Management				
General Revenue Total	2,179	2,374	2,353	21
Federal Funds Total	299	288	157	131
Total - Central Management*	2,478	2,662	2,510	152
Accounts & Control				
General Revenue	9,300	4,002	3,975	27
RI e-Government Fund-RI-SAIL	431	444	401	43
Total-Accounts & Control	9,731	4,446	4,376	70
Budgeting				
General Revenue Total	2,395	2,362	2,313	49
Total-Budgeting	2,395	2,362	2,313	49
Municipal Affairs				
General Revenue Total	1,253	1,240	1,189	51
Federal Funds Total	7,573	7,813	5,709	2,104
Total-Municipal Affairs	8,826	9,053	6,898	2,155
Purchasing				
General Revenue Total	1,986	2,026	1,883	143
Total-Purchasing	1,986	2,026	1,883	143
Auditing				
General Revenue Total	1,677	1,663	1,611	52
Total-Auditing	1,677	1,663	1,611	52
Human Resources				
Bridge Project-State Share	0	10	3	7
General Revenue Total	6,889	7,079	6,951	128
Federal Funds Total	0	104	19	85
Total-Human Resources	6,889	7,194	6,973	221
Personnel Appeal Board				
General Revenue Total	116	118	128	(10)
Total-Personnel Appeal Board	116	118	128	(10)
Taxation				
Motor Fuel Tax Evasion Program	56	56	18	38
Temporary Disability Insurance	572	675	624	51
General Revenue Total	17,432	17,479	16,917	562
Federal Funds Total	801	991	852	139
Restricted Receipts Total	1,361	1,206	1,068	138
Total-Taxation	20,223	20,406	19,479	927

Exhibit A-80

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Registry of Motor Vehicles				
Auto Emmission CMAQ	0	0	0	0
Registry Denial Program	0	0	0	0
General Revenue Total	15,279	15,663	15,488	175
RI e-Government Fund-OLIS Support-RMV System	195	115	160	(45)
RI e-Government Fund-Digital License System	417	417	633	(216)
Federal Funds Total	435	1,223	107	1,116
Restricted Receipts Total	14	14	14	0
Total-Registry of Motor Vehicles	16,340	17,432	16,402	1,030
Child Support				
General Revenue Total	3,294	3,263	3,202	61
Federal Funds Total	6,534	6,562	6,442	120
Total-Child Support	9,828	9,826	9,643	183
Central Services				
Lighting Conservation	661	0	0	0
General Revenue Totals	16,186	16,293	13,184	3,109
Energy Office Grants	356	355	818	(463)
Federal Funds Totals	19,887	17,851	16,291	1,560
Restricted Receipts Total	1,068	898	618	280
Total-Central Services	38,159	35,397	30,911	4,486
Office of Library & Information Service				
Federal Highway-PL Systems Planning	982	974	887	87
Federal Highway-T2 Systems Planning	130	4	7	(3)
Air Quality Modeling	20	15	15	0
General Revenue Total	3,430	3,383	3,082	301
Federal Funds Total	1,361	1,257	1,237	20
Restricted Receipts Total	5	5	3	2
Total-Office of Library & Information Service	5,928	5,637	5,231	406
General				
RICAP-State House Renovations (Phase 1)	0	0	0	0
RICAP-State House Skylights and Roof Repairs	74	74	74	0
RICAP-State House Terrace/South Stairs	739	739	11	728
RICAP-Pastore Center Sewer Improvements	0	500	0	500
RICAP-Chapin Health Laboratory	394	234	120	114
RICAP-Cranston Street Armory	541	391	445	(54)
RICAP-Cannon Building	276	176	74	102
RICAP-House & Senate Chambers Renovation	0	0	0	0
RICAP-Second State House Elevator	6	0	0	0
RICAP - Ladd Center-Infrastructure	0	0	0	0
RICAP-Old State House	425	100	0	100
RICAP-State Office Building	482	412	197	215
RICAP-Veterans Office Building	436	436	291	145
RICAP-Information Operations Center	200	50	7	43
RICAP-Old Colony House	148	148	14	134
RICAP-Court Building-HVAC	250	250	153	97
RICAP-Asset Inventor	30	0	0	0

Exhibit A-81

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
RICAP-Washington County Government Center	350	150	114	36
RICAP-State House Security	69	69	36	33
RICAP-State House Renovations - Phase II	403	353	139	214
RICAP-William Powers Building	45	45	42	3
RICAP-State House Renovations-Phase III	230	50	5	45
RICAP-Powers Building Tech Infrastructure	300	50	28	22
RICAP-Board of Elections Building	48	48	19	29
RICAP-Environmental Compliance	1,702	702	489	213
RICAP-Fox Point Hurricane Barrier	50	50	50	0
RICAP-Bio Tech Training Lab-Planning Funds	300	300	100	200
RICAP - Facility Renovation ADA	0	0	0	0
Information Processing Rotary Account-Overhead	480	480	480	0
Property Tax Relief Credit	6,000	6,000	6,000	0
Rhode Island Sports Foundation	368	400	400	0
EDC-RPScore	0	0	0	0
Shepard Building Operating/Parking	1,970	1,970	2,143	(173)
Miscellaneous Grants and Payments	2,147	2,109	2,099	10
Torts-Court Awards	400	400	476	(76)
Asset Inventory	150	150	49	101
Race and Police Community Relations Commission	63	63	63	0
State Employees/Teachers Retiree Health	0	4,962	5,082	(120)
Masonic Temple	500	500	0	500
Contingency Fund	2,018	2,018	1,371	647
Economic Development Corporation Grant	6,486	6,386	6,367	19
Office of City and Town Development-EDC	500	500	500	0
Centers of Excellence	4,000	4,000	4,000	0
Economic Policy Council	300	300	300	0
Housing Resources Commission	3,258	3,255	3,132	123
Neighborhood Opportunities Program	5,000	5,000	5,000	0
Motor Vehicle Excise Tax Payment	104,338	104,987	54,845	50,142
Property Valuation	2,604	2,604	2,485	119
General Revenue Sharing Program	51,426	51,439	51,439	0
Payment in Lieu of Tax Exempt Properties	21,716	21,716	21,716	0
Distressed Communities Relief Program	7,533	7,533	7,533	0
Resource Sharing and State Library Aid	7,587	7,587	7,562	25
Library Construction Aid	2,537	2,157	2,129	28
Federal Funds	298	298	50,151	(49,853)
Restricted Receipts Total	1,196	1,127	1,126	1
Total-General	240,373	243,267	238,857	4,410
Debt Service Payments				
RICAP-DEM - Narragansett Bay Commission	3,333	3,333	3,652	(319)
RICAP-DEM - Wastewater Treatment	1,931	4,551	3,849	702
RICAP-DEM -Hazardous Waste	0	0	0	0
RICAP-DEM - Debt Service Economic Development	0	0	1,201	(1,201)
RICAP-DEM - Debt Service-Recreation	0	7,684	6,882	802
RICAP-Water Resources Board	0	1,117	1,603	(486)
RICAP-University of Rhode Island-Debt Service	0	4,255	4,116	139
RICAP-Rhode Island College-Debt Service	0	473	458	15
RICAP-Community College of Rhode Island-Debt Service	0	1,141	1,117	24

Exhibit A-82

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
RIPTA Debt Service	431	388	388	0
RICAP-MHRH Com Services	10,067	5,067	4,842	225
RICAP-MHRH Comm. Mental Health	2,273	2,273	2,141	132
Transportation Debt Service	31,785	30,968	30,598	370
RIRBA-Third Rail Project - Quonset Point	0	0	133	(133)
RIRBA - DLT Temporary Disability Insurance	46	46	55	(9)
COPS - DLT Building - TDI	346	361	357	4
Cops-DLT Building-Reed Act	31	30	39	(9)
COPS - Center General - Furniture - TDI	59	20	18	2
COPS-Center General-Furniture-Reed Act	5	6	8	(2)
COPS-Center General-Furniture-Reed Act	2	1	2	(1)
COPS - Pastore Center Telecomm - TDI	17	18	18	0
Debt - URI Education and General	1,089	1,089	3,554	(2,465)
Debt - URI housing Loan Funds	1,752	1,752	1,646	106
Debt - URI Dining Services	267	267	90	177
Debt - URI Health Services	126	126	43	83
Debt - W. Alton Jones Service	113	113	38	75
Debt - URI Memorial Union	98	98	33	65
Debt - URI Sponsored Research (Indirect Cost)	101	101	102	(1)
Debt - RIC Education and General	297	297	216	81
Debt - RIC Housing	568	568	293	275
Debt - RIC Student Center and Dining	178	178	64	114
Debt - RIC Student Union	217	217	274	(57)
Debt - CCRI Bookstore	177	177	176	1
RICAP-DEM Debt Service CWFA	0	2,406	2,307	99
Debt Service Payments	84,998	64,134	64,285	(151)
Debt Service Special Account	0	0	402	(402)
Federal Funds	1,276	1,298	1,329	(31)
RIRBA-DLT-Job Development Fund	46	46	52	(6)
RIRBA-DLT Rapid Reemployment	48	48	23	25
COPS-Center General Furniture-WC	38	42	43	(1)
COPS-DLT Building-WC	224	216	219	(3)
COPS-DLT Building-Job Development Fund	67	59	59	0
COPS-Pastore Center Telecom.-JDF	3	3	3	0
COPS-Center General Furniture-JDF	11	12	12	0
COPS-Pastore Center Telecom.-WC	11	11	11	0
COPS-Center General Furn. Rapid Reempl. Fund	0	2	2	0
COPS-DLT Building-Rapid Reemployment Fund	0	32	30	2
COPS-Center General Furn. Rapid Reempl Fnd	0	6	6	0
Investment Receipts-TANS	1,421	1,859	1,926	(67)
RICCA-Excess Debt Service Rental Payment	3,624	5,030	5,030	0
Total - Debt Service Payments	147,078	141,920	143,744	(1,824)
Sheriffs				
General Revenue Total	14,054	13,502	13,174	328
Total Sheriffs	14,054	13,502	13,174	328
General Revenue Fund Total-Dept Of Admin	413,248	392,431	336,916	55,515
Federal Grant Fund Total-Dept of Admin	38,464	37,685	82,294	(44,609)
Restricted Fund Total-Dept of Admin	9,137	10,615	10,245	370

Exhibit A-83

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Other Fund Total-Dept of Admin	65,229	76,183	74,678	1,505
Total-Department of Administration	526,080	516,913	504,133	12,780
Department of Business Regulation				
Central Management				
General Revenue Total	1,646	1,680	1,609	71
Total-Central Management	1,646	1,680	1,609	71
Banking Regulation				
General Revenue Total	1,628	1,659	1,632	27
Total-Banking Regulation	1,628	1,659	1,632	27
Security Regulation				
General Revenue Total	799	788	758	30
Total-Securities Regulation	799	788	758	30
Commercial Licensing and Regulation				
General Revenue Total	1,167	1,171	1,122	49
Restricted Revenue Total	100	100	44	56
Total-Commercial Licensing and Regulation	1,267	1,271	1,167	104
Racing and Athletics				
General Revenue Total	718	628	547	81
Total-Racing and Athletics	718	628	547	81
Insurance Regulation				
General Revenue Total	3,886	3,621	3,535	86
Restricted Receipts Total	501	602	511	91
Total-Insurance Regulation	4,387	4,223	4,045	178
Board of Accountancy				
General Revenue Total	125	129	127	2
Total-Board of Accountancy	125	129	127	2
General Revenue Fund Total-DBR	9,969	9,675	9,330	345
Restricted Fund Total-DBR	601	702	555	147
Total-Department of Business Regulation	10,570	10,377	9,885	492
Department of Labor and Training				
Central Management				
General Revenue Total	353	227	229	(2)
Director of Workers' Compensation	754	397	407	(10)
Total-Central Management	1,106	624	636	(12)

Exhibit A-84

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations	250	250	86	164
Reed Act-Rapid Job Development	1,726	1,630	1,649	(19)
Reed Act - Workforce Development	2,016	1,987	1,962	25
General Revenue	1,400	1,400	1,695	(295)
Federal Funds Total	14,883	18,904	15,996	2,908
Restricted Receipts	11,617	9,428	9,891	(463)
Total-Workforce Development Services	31,893	33,599	31,279	2,320
Workforce Regulation and Safety				
General Revenue Total	2,873	2,224	2,282	(58)
Total-Workforce Regulation and Safety	2,873	2,224	2,282	(58)
Income Support				
Reed Act-Special Distribution	54	54	54	0
General Revenue Total	2,899	2,982	2,972	10
Federal Funds Total	16,931	17,286	15,362	1,924
Restricted Receipt Total	1,948	2,354	2,191	163
Total-Income Support	21,833	22,677	20,579	2,098
Injured Workers Services				
Restricted Receipts Total	10,785	11,483	9,564	1,919
Total-Injured Workers Services	10,785	11,483	9,564	1,919
Labor Relations Board				
General Revenue Total	391	407	357	50
Total-Labor Relations Board	391	407	357	50
General Revenue Fund Total-DLT	7,916	7,240	7,535	(295)
Federal Grants Fund Total-DLT	31,814	36,191	31,357	4,834
Restricted Fund Total-DLT	25,104	23,662	22,053	1,609
Other Fund Total-DLT	4,046	3,921	3,752	169
Total-Department of Labor and Training	68,880	71,014	64,697	6,317

Exhibit A-85

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
General Assembly				
General Revenue Fund Total	29,061	28,738	24,362	4,376
Restricted Receipts Fund Total	884	1,284	1,489	(205)
Legislative Office Building	1,500	0	0	0
General Revenue Fund Total-Gen Assembly	29,061	28,738	24,362	4,376
Restricted Fund Total-Gen Assembly	884	1,284	1,489	(205)
Other Fund Total-Gen Assembly	1,500	0	0	0
Total-General Assembly	31,446	30,023	25,851	4,172
Office of the Lieutenant Governor				
Lt. Governor's Office-General				
General Revenue Total	863	839	842	(3)
General Revenue Fund Total-Office of Lieutenant Governor	863	839	842	(3)
Total-Office of the Lieutenant Governor	863	839	842	(3)
Department of State				
Administration				
General Revenue Total	1,180	1,391	1,443	(52)
Total-Administration	1,180	1,391	1,443	(52)
Corporations				
General Revenue Total	1,685	1,467	1,450	17
RI e-Gov Fund-UCC Automated System	100	100	61	39
Total-Corporation	1,785	1,567	1,511	56
State Archives				
General Revenue Total	98	94	97	(3)
Federal Funds Total	0	0	0	0
Restricted Receipts total	554	487	476	11
Total-State Archives	651	581	572	9
Elections				
General Revenue Total	363	401	397	4
Federal Funds Total	8,261	2,506	1,503	1,003
Total-Elections	8,624	2,906	1,900	1,006
State Library				
General Revenue Total	680	709	700	9
Total-State Library	680	709	700	9
Office of Public Information				
General Revenue Total	519	422	408	14
Total-Office of Public Information	519	422	408	14
General Revenue Fund Total-Sec of State	4,626	4,585	4,555	30
Federal Grant Fund Total-Sec of State	8,261	2,506	1,503	1,003
Restricted Fund Total-Sec of State	554	487	476	11

Exhibit A-86

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Total-Department of State	13,440	7,577	6,533	1,044
Treasury Department				
Treasury				
General Revenue Total	2,550	2,508	2,447	61
Federal Funds Total	238	247	292	(45)
Restricted Receipts Total	10	10	0	10
Other Funds TDI	0	0	0	0
Total-Treasury	2,798	2,765	2,739	26
State Retirement System				
Administrative Expenses-State Retirement System	4,900	5,193	3,953	1,240
Retirement-Treasury Investment Operations	632	664	639	25
Total-State Retirement System	5,532	5,858	4,592	1,266
Unclaimed Property				
Restricted Receipts Total	19,118	17,491	25,907	(8,416)
Total-Unclaimed Property	19,118	17,491	25,907	(8,416)
RI Refunding Bond Authority				
General Revenue Total	80	80	31	49
Total-RI Refunding Bond Authority	80	80	31	49
Crime Victim Compensation Program				
General Revenue Total	215	1,029	253	776
Federal Funds Total	1,288	4,295	2,080	2,215
Restricted Receipts Total	1,602	1,700	1,763	(63)
Total-Crime Victim Compensation Program	3,105	7,024	4,097	2,927
General Revenue Fund Total-Treasury	2,845	3,617	2,732	885
Federal Grant Fund Total-Treasury	1,526	4,542	2,373	2,169
Restricted Fund Total-Treasury	20,730	19,202	27,670	(8,468)
Other Fund Total-Treasury	5,532	5,858	4,592	1,266
Total-Treasury Department	30,633	33,218	37,366	(4,148)
Boards for Design Professionals-PL				
Boards For Professional Design				
General Revenue Total	391	405	419	(14)
General Revenue Fund Total-Board of Professional Design	391	405	419	(14)
Total-Boards For Professional Designs-PL	391	405	419	(14)
Board of Elections				
General Revenue Total	1,365	1,402	1,316	86
RI e-Government Fund-Electronic Campaign Finance	0	0	0	0
Federal Funds Total	941	1,160	953	207
General Revenue Fund Total-Board of Elections	1,365	1,402	1,316	86
Federal Grant Fund Total-Board of Elections	941	1,160	953	207

Exhibit A-87

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Total-Board Of Elections	2,306	2,562	2,269	293
Rhode Island Ethics Commission				
General Revenue Total	969	940	851	89
General Revenue Fund Total-RI Ethics Commission	969	940	851	89
Total-Rhode Island Ethics Commission	969	940	851	89
Office of Governor				
General Revenue Total	4,462	4,425	4,381	44
General Revenue Fund Total-Office of the Governor	4,462	4,425	4,381	44
Total-Office of the Governor	4,462	4,425	4,381	44
Public Utilities Commission				
General Revenue Total	693	684	640	44
Federal Funds Total	70	69	61	8
Restricted Receipts Total	5,124	5,123	3,909	1,214
General Revenue Fund Total-PUC	693	684	640	44
Federal Grant Fund Total-PUC	70	69	61	8
Restricted Fund Total-PUC	5,124	5,123	3,909	1,214
Total-Public Utilities Commission	5,887	5,877	4,610	1,267
Rhode Island Commission on Women				
General Revenue Total	143	68	65	3
General Revenue Fund Total-RI Commission on Women	143	68	65	3
Total-Rhode Island Commission on Women	143	68	65	3
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	7,688	7,777	7,883	(106)
Federal Funds Total	4,422	3,918	3,714	204
Total-Central Management	12,110	11,695	11,597	98
Children's Behavioral Health Services				
RICAP CBHS Grodin Center	0	0	0	0
RICAP-Spurwink/RI	33	33	10	23
General Revenue Total	19,349	21,571	23,807	(2,236)
Federal Funds Total	24,714	26,935	33,090	(6,155)
Total-Children's Behavioral Health Services	44,096	48,539	56,907	(8,368)
Juvenile Correctional Services				
RICAP-RI Training School Bathroom Renovation	47	0	0	0
RICAP-NAFI Center	25	13	11	2
General Revenue Total	26,659	27,375	26,631	744
Federal Funds Total	3,054	2,906	3,150	(244)
Restricted Receipts Total	700	869	233	636
Total-Juvenile Correctional Services	30,485	31,163	30,025	1,138

Exhibit A-88

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Child Welfare				
Children's Trust Fund	82,413	83,538	82,676	862
Harmony Hill	0	0	0	0
General Revenues	0	0	0	0
Federal Funds Total	64,044	68,590	69,133	(543)
Restricted Receipts Total	1,311	1,398	1,743	(345)
Total-Child Welfare	147,768	153,527	153,552	(25)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	0
Total-Higher Education Incentive Grants	200	200	200	0
General Revenue Fund Total-DCYF	136,310	140,461	141,197	(736)
Federal Grant Fund Total-DCYF	96,234	102,349	109,087	(6,738)
Restricted Fund Total-DCYF	2,011	2,267	1,976	291
Other Fund Total-DCYF	104	46	21	25
Total-Department of Children, Youth, and Families	234,659	245,123	252,281	(7,158)
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,720	4,720	4,718	2
RAPP Foundation Funds	0	10	9	1
General Revenues Total	13,605	13,798	14,748	(950)
Safety and Care of the Elderly	1	1	1	0
RIPAE	14,090	15,213	14,530	683
Federal Funds Total	9,885	15,092	11,777	3,315
General Revenue Fund Total-Dept of Elderly Affairs	27,695	29,012	29,279	(267)
Federal Grant Fund Total-Dept of Elderly Affairs	9,885	15,092	11,777	3,315
Other Fund Totals-Dept of Elderly Affairs	4,720	4,730	4,727	3
Total-Department of Elderly Affairs	42,300	48,834	45,783	3,051
Department of Health				
Central Management				
Trauma Registry	1	0	0	0
General Revenues Total	2,646	2,191	2,304	(113)
RI e-Gov Fund-Automated Vital Records System	0	0	0	0
Federal Funds Total	4,366	5,819	3,637	2,182
Restricted Receipts Total	2,046	2,905	3,304	(399)
Total-Central Management	9,059	10,915	9,245	1,670
State Medical Examiner				
General Revenue Total	1,810	1,797	1,753	44
Federal Funds Total	0	122	89	33
Total-State Medical Examiners	1,810	1,919	1,842	77

Exhibit A-89

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Family Health				
General Revenues Total	8,636	9,377	9,173	204
Poison Control Center	0	0	(7)	7
Federal Funds Total	36,651	37,345	34,612	2,733
Restricted Receipts Total	5,728	5,712	3,867	1,845
Total-Family Health	51,015	52,433	47,645	4,788
Health Services Regulation				
General Revenues Total	4,488	4,507	4,425	82
Hospital Care Consultant Report	0	0	0	0
Federal Funds Total	3,547	5,192	4,788	404
Restricted Receipts Total	447	385	339	46
Total-Health Services Regulation	8,482	10,083	9,552	531
Environmental Health				
General Revenue Total	4,384	4,338	4,208	130
Federal Funds Total	3,190	5,664	4,853	811
Restricted Receipts Total	1,475	1,458	1,181	277
Total-Environmental Health	9,049	11,460	10,242	1,218
Health Laboratories				
General Revenue Total	6,179	6,121	6,001	120
Federal Funds Total	1,620	2,311	1,902	409
Total-Health Laboratories	7,800	8,432	7,903	529
Disease Prevention and Control				
General Revenue Total	5,948	5,936	5,863	73
Federal Funds Total	14,848	18,708	17,444	1,264
Restricted Receipts Total	934	1,049	1,038	11
Child Safety Program	72	86	70	16
Walkable Communities Initiative	0	20	9	11
Total-Disease Prevention and Control	21,803	25,799	24,423	1,376
General Revenue Fund Total-Health	34,092	34,267	33,719	548
Federal Grant Fund Total-Health	64,221	75,161	67,324	7,837
Restricted Fund Total-Treasury	10,631	11,508	9,729	1,779
Other Fund Total-Health	73	106	79	27
Total-Department of Health	109,018	121,042	110,852	10,190
Department of Human Services				
Central Management				
General Revenue Total	6,506	6,239	5,666	573
Federal Funds Total	4,372	4,317	3,947	370
Restricted Receipts Total	2,288	2,379	2,335	44
Total-Central Management	13,165	12,935	11,948	987
Individual and Family Support				
RICAP-Blind Vending Facilities	187	0	0	0
RICAP Forand Building Exterior Window Panels	929	0	0	0

Exhibit A-90

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
General Revenue Total	20,137	19,727	19,609	118
Federal Funds Total	52,464	53,151	49,106	4,045
Restricted Receipts Total	68	85	84	1
Total-Individual and Family Support	73,785	72,963	68,800	4,163
Veterans' Affairs				
General Revenue Total	16,341	16,240	16,041	199
Federal Funds Total	5,523	8,911	6,293	2,618
Restricted Receipts Total	1,949	849	550	299
Total-Veterans' Affairs	23,813	26,000	22,885	3,115
Health Care Quality,Financing and Purchases				
General Revenue Total	23,981	25,282	24,367	915
Federal Funds Total	39,200	39,863	36,997	2,866
Restricted Receipts Total	1,038	862	648	214
Total-Health Care Quality, Financing & Purchase	64,220	66,007	62,013	3,994
Medical Benefits				
General Revenue				
Managed Care	127,668	132,572	135,223	(2,651)
Hospital	95,448	99,656	100,733	(1,077)
Other	90,039	99,250	96,383	2,867
Special Education	17,048	11,118	13,267	(2,149)
Nursing Facilities	119,536	119,224	120,399	(1,175)
General Revenue Total	449,739	461,820	466,005	(4,185)
Federal Funds				
Managed Care	188,931	189,328	192,774	(3,446)
Hospitals	123,814	129,044	131,267	(2,223)
Nursing Facilities	165,942	167,776	171,582	(3,806)
Other	129,009	138,321	137,325	996
Special Education	24,352	15,882	19,852	(3,970)
Federal Funds Total	632,048	640,351	652,800	(12,449)
Restricted Receipts Total	15	15	9	6
Total-Medical Benefits	1,081,802	1,102,186	1,118,814	(16,628)
Supplemental Security Income Program				
General Revenue Total	26,824	26,643	26,561	82
Total-Supplemental Security Income Program	26,824	26,643	26,561	82
Family Independence Program				
TANF/Families Independence Program	18,243	19,081	18,993	88
Child Care	58,797	52,977	53,020	(43)
Federal Funds Total	83,084	87,603	87,654	(51)
Total-Family Independence Program	160,125	159,661	159,666	(5)
State Funded Programs				
General Public Assistance	2,929	3,061	2,972	89
Food Stamp Replacement for Legal Immigrants	0	0	1	(1)
Weatherization One-Time Payment	0	0	0	0

Exhibit A-91

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Citizen Participation Program	45	50	50	0
Federal Funds Total	68,556	72,720	72,611	109
Total-State Funded Programs	71,531	75,831	75,635	196
General Revenue Fund Total-Human Services	623,542	631,120	633,286	(2,166)
Federal Grant Fund Total-Human Services	885,248	906,916	909,409	(2,493)
Restricted Fund Total-Human Services	5,358	4,190	3,626	564
Other Fund Total-Human Services	1,116	0	0	0
Total-Department of Human Services	1,515,264	1,542,226	1,546,320	(4,094)
Department of Mental Health, Retardation, and Hospital Central Management				
General Revenue Total	2,261	2,082	2,005	77
Total-Central Management	2,261	2,082	2,005	77
Hospital & Community System Support				
RICAP-Utilities Upgrade	300	300	92	208
RICAP-Medical Center Rehabilitation	400	210	140	70
RICAP-Utilities Systems Water Tanks and Pipes	250	50	9	41
RICAP-Central Power Plant Rehabilitation	500	540	416	124
RICAP-Pastore Center Sewer Improvement	500	0	0	0
General Revenue Total	20,075	23,122	22,377	745
Total-Hospital & Community System Support	22,025	24,222	23,033	1,189
Service for the Developmentally Disabled				
RICAP-DD State Owned Group Homes	200	0	4	(4)
General Revenue Total	94,583	94,401	95,223	(822)
Pirovano Trust	52	52	35	17
Federal Funds Total	131,677	128,333	133,438	(5,105)
Total-Service for the Developmentally Disabled	226,513	222,786	228,700	(5,914)
Integrated Mental Health Services				
General Revenue Total	33,661	34,769	34,762	7
Federal Funds Total	34,856	36,934	37,077	(143)
Total-Integrated Mental Health Services	68,517	71,703	71,839	(136)
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	339	39	0	39
General Revenue Total	44,648	45,914	45,700	214
Federal Funds Total	56,797	59,070	59,381	(311)
Total-Hospital & Community Rehabilitation Svcs	101,784	105,023	105,081	(58)
Substance Abuse				
RICAP-Asset Protection	122	22	17	5
General Revenues Total	14,340	14,436	14,436	0
Federal Funds Total	14,536	13,469	11,583	1,886
Restricted Receipts Total	75	75	46	29
Total-Substance Abuse	29,072	28,002	26,082	1,920

Exhibit A-92

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
General Revenue Fund Total-MHRH	209,620	214,776	214,539	237
Federal Grant Fund Total-MHRH	237,866	237,806	241,479	(3,673)
Restricted Fund Total-MHRH	75	75	46	29
Other Fund Total-MHRH	2,611	1,161	678	483
Total-Department of Mental Health, Retardation, and Hospitals	450,172	453,818	456,742	(2,924)
Office of Child Advocate				
General Revenue Total	415	475	497	(22)
Federal Funds Total	48	63	84	(21)
Restricted Receipts Total	0	18	17	1
General Revenue Fund Total-Office of Child Advocate	415	475	497	(22)
Federal Grant Fund Total-Office of Child Advocate	48	63	84	(21)
Restricted Fund Total-Office of Child Advocate	0	18	17	1
Total-Office of the Child Advocate	463	556	598	(42)
Rhode Island Commission of the Deaf and Hard of Hearing				
Commission On Deaf and Hard Of Hearing				
General Revenue Total	285	268	237	31
General Revenue Fund Total-RI Comm of the Deaf	285	268	237	31
Total-Rhode Island Commission of the Deaf and Hard of Hearin	285	268	237	31
State Council on Developmental Disabilities				
Federal Funds Total	549	556	481	75
Federal Grant Fund Total-State Comm on Dev Disab.	549	556	481	75
Total-State Council on Developmental Disabilities	549	556	481	75
Governor's Commission on Disabilities				
General Revenue Total	534	539	538	1
Federal Funds Total	147	88	18	70
Restricted Receipts Total	51	43	12	31
RICAP-Handicapped Accessibility Facility Renovation	500	100	17	83
General Revenue Fund Total-Governor's Comm on Disab.	534	539	538	1
Federal Grant Fund Total-Governor's Comm on Disab.	147	88	18	70
Restricted Fund Total-Governor's Comm on Disab.	51	43	12	31
Other Fund Total-Governor's Comm on Disab.	500	100	17	83
Total-Governor's Commission on Disabilities	1,232	770	585	185
Rhode Island Commission for Human Rights				
General Revenue Total	895	1,031	1,039	(8)
Federal Funds Total	271	232	63	169
General Revenue Fund Total-RI Comm for Human Rights	895	1,031	1,039	(8)
Federal Grant Fund Total-RI Comm for Human Rights	271	232	63	169
Total-Rhode Island Commission for Human Rights	1,166	1,263	1,101	162

Exhibit A-93

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Office of Mental Health Advocate				
General Revenue Total	318	315	323	(8)
General Revenue Fund Total-Office of Mental Health Advocate	318	315	323	(8)
Total-Office of Mental Health Advocate	318	315	323	(8)
Department of Elementary and Secondary Education				
State Aid				
State Support Local School Operations	617,153	617,347	617,345	2
Federal Funds Total	1,257	1,501	1,858	(357)
Restricted Funds Total	0	984	984	0
Total-State Aid	618,410	619,831	620,187	(356)
School Housing Aid				
General Revenue Total	40,747	40,741	40,741	0
Total-School Housing Aid	40,747	40,741	40,741	0
Teachers' Retirement				
General Revenue Total	45,449	46,213	45,039	1,174
Total-Teachers' Retirement	45,449	46,213	45,039	1,174
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	484	484	33	451
General Revenue Total	5,631	6,052	6,052	0
Federal Funds Total	1,213	1,277	470	807
Restricted Receipts Total	0	0	0	0
Total-RI School for the Deaf	7,329	7,813	6,555	1,258
Central Falls School District				
General Revenue Total	35,635	35,635	35,635	0
Total-Central Falls School District	35,635	35,635	35,635	0
Davies Career and Technical School				
RICAP - Davies Roof Repair	442	459	22	437
General Revenue Total	11,330	11,066	11,044	22
Federal Funds Total	1,031	1,369	1,155	214
Restricted Receipts Total	101	98	86	12
Total-Davies Career and Technical School	12,904	12,992	12,306	686
Metropolitan Career and Technical School				
General Revenue Total	5,750	5,750	5,750	0
Total-Metropolitan Career and Technical School	5,750	5,750	5,750	0
Program Operations				
RICAP-Woonsocket Vocational HVAC	0	0	0	0
RICAP-East Providence Vocational HVAC	354	354	0	354
RICAP-Hanley-HVAC	1	0	0	0
RICAP-State Owned Schools-Fire Alarm Systems	93	719	143	576
Transportation Study General Reveue	10	10	0	10
General Revenue Total	14,934	14,558	14,421	137

Exhibit A-94

**State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

General Fund

**For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Federal Funds Total	164,740	187,258	148,021	39,237
Restricted Receipts Total	1,030	1,477	831	646
Total-Program Operations	181,162	204,366	163,415	40,951
General Revenue Fund Total-Dept of Elem & Sec Education	776,639	777,361	776,026	1,335
Federal Grant Fund Total-Dept of Elem & Sec Education	168,241	191,404	151,504	39,900
Restricted Fund Total-Dept of Elem & Sec Education	1,132	2,559	1,901	658
Other Fund Total-Dept of Elem & Sec Education	1,375	2,017	198	1,819
Total-Department of Elementary and Secondary Education	947,387	973,341	929,629	43,712
Board of Governors for Higher Education				
Board Of Governors/Office				
General Revenue Fund Total	172,265	171,041	171,028	13
Federal Fund Total	3,021	3,021	1,882	1,139
General Revenue Fund Total-BOG Higher Education	172,265	171,041	171,028	13
Federal Grant Fund Total-BOG Higher Education	3,021	3,021	1,882	1,139
Total-Board of Governors for Higher Education	175,286	174,062	172,910	1,152
Rhode Island State Council on the Arts				
Operating Support	468	459	420	39
Grants	1,846	1,828	1,186	642
Federal Funds Total	696	611	569	42
Restricted Receipts Total	200	200	12	188
General Revenue Fund Total-RI State Council on the Arts	2,314	2,287	1,606	681
Federal Grant Fund Total-RI State Council on the Arts	696	611	569	42
Restricted Fund Total-RI State Council on the Arts	200	200	12	188
Total-Rhode Island State Council on the Arts	3,210	3,098	2,187	911
Rhode Island Atomic Energy Commission				
URI Sponsored Research	154	150	149	1
RICAP-Roof Replacement-North Bunker	0	0	0	0
General Revenue Total	646	699	696	3
Federal Funds Total	325	325	124	201
General Revenue Fund Total-RI Atomic Energy Council	646	699	696	3
Federal Grant Fund Total-RI Atomic Energy Council	325	325	124	201
Other Fund Total-RI Atomic Energy Council	154	150	149	1
Total-Rhode Island Atomic Energy Commission	1,125	1,175	968	207
Rhode Island Higher Education Assistance Authority				
Needs Based Grant and Work Opportunities	9,933	9,933	9,933	0
Authority Operations and Other Grants	1,127	1,119	1,119	0
General Revenue Fund Total-RIHEAA	11,060	11,052	11,051	1
Total-Rhode Island Higher Education Assistance Authority	11,060	11,052	11,051	1

Exhibit A-95

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Historical Preservation and Heritage Commission				
General Revenue Total	1,095	1,078	1,022	56
Federal Funds Total	535	523	511	12
Restricted Receipts Total	252	274	78	196
General Revenue Fund Total-Historical Preservation	1,095	1,078	1,022	56
Federal Grant Fund Total-Historical Preservation	535	523	511	12
Restricted Fund Total-Historical Preservation	252	274	78	196
Total-Historical Preservation and Heritage Commission	1,881	1,875	1,612	263
Rhode Island Public Telecommunications Authority				
General Revenue Total	1,252	1,238	1,218	20
General Revenue Fund Total-RIPTA	1,252	1,238	1,218	20
Total-Rhode Island Public Telecommunications Authority	1,252	1,238	1,218	20
Department of Attorney General				
Criminal				
General Revenue Total	10,742	10,631	10,177	454
Federal Funds Total	1,372	1,591	1,403	188
Restricted Receipts Total	184	340	184	156
Total-Criminal	12,298	12,561	11,764	797
Civil				
General Revenue Total	3,503	3,381	3,348	33
Federal Funds Total	67	72	0	72
Restricted Receipts Total	447	450	484	(34)
Total-Civil	4,017	3,903	3,832	71
Bureau of Criminal Identification				
General Revenue Total	719	754	742	12
Federal Funds Total	0	335	75	260
Total-Bureau of Criminal Identification	719	1,089	817	272
General				
General Revenue Total	1,820	1,828	1,810	18
Total-General	1,820	1,828	1,810	18
General Revenue Fund Total-Dept of Attorney General	16,784	16,593	16,078	515
Federal Grant Fund Total-Dept of Attorney General	1,439	1,999	1,478	521
Restricted Fund Total-Dept of Attorney General	631	789	668	121
Total-Department of Attorney General	18,853	19,381	18,224	1,157
Department of Corrections				
Central Management				
General Revenue Total	9,603	9,733	9,250	483
Federal Funds Total	0	296	95	201
Total-Central Management	9,603	10,029	9,345	684

Exhibit A-96

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Parole Board				
General Revenue Total	999	1,054	830	224
Total-Parole Board	999	1,054	830	224
Institutional Corrections				
RICAP-Fire Code Safety Improvements	406	56	23	33
RICAP-Security Camera Installation	577	0	4	(4)
RICAP-HVAC Renovations-Maximum	0	0	0	0
RICAP-Window Replacement-Women's	63	0	0	0
RICAP-Dix Expansion-Phase II	554	0	0	0
RICAP-Reintegration Center State Match	354	437	1	436
RICAP-Dix Expansion-State Match	38	63	17	46
RICAP-General Renovations-Maximum	864	864	310	554
RICAP-Roof/Masonry Renovations-Women's	828	128	97	31
RICAP-High Security Fire Alarm HVAC	200	200	98	102
RICAP-Aquidneck & Prudence Cellblock Roofs	0	0	0	0
RICAP-Perimeter/Security Upgrades	314	314	126	188
RICAP - Women's Bath Renovation	756	106	4	102
RICAP - Dix Expansion Consolidation	0	0	0	0
RICAP-Correctional Industries Roof	265	265	88	177
General Revenue Total	117,627	123,297	123,263	34
Federal Funds Total	7,648	6,362	1,175	5,187
Restricted Receipts Total	2,738	2,108	1,811	297
Total-Institutional Corrections	133,230	134,199	127,017	7,182
Community Corrections				
General Revenue Total	11,848	11,216	10,741	475
Federal Funds Total	1,813	1,673	530	1,143
Total-Community Corrections	13,661	12,889	11,271	1,618
General Revenue Fund Total-Corrections	140,077	145,300	144,083	1,217
Federal Grant Fund Total-Corrections	9,461	8,331	1,800	6,531
Restricted Fund Total-Corrections	2,738	2,108	1,811	297
Other Fund Total-Corrections	5,217	2,432	769	1,663
Total-Department of Corrections	157,493	158,171	148,463	9,708
Judicial Department				
Supreme Court				
RICAP-Garrahy Judicial Complex Renovation	4	0	0	0
RICAP-Garrahy Complex Roof Repair	0	0	0	0
RICAP-Licht Exterior/Interior Refurbishment	0	0	0	0
RICAP - Murray Judicial Complex - Interior Refurbishment	360	310	237	73
RICAP-Fogarty Judicial Annex	56	56	8	48
RICAP-Garrahy Lighting & Ceiling	15	0	0	0
RICAP-Licht Judicial Complex Roof Study	25	0	0	0
RICAP-Licht Judicial Complex-Foundation	10	35	0	35
General Revenue Total	22,371	21,070	20,679	391
Defense of Indigents	1,950	2,250	2,377	(127)

Exhibit A-97

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Federal Funds Total	636	928	553	375
Restricted Receipts Total	889	886	822	64
Total-Supreme Court	26,316	25,535	24,676	859
Superior Court				
Federal Funds Total	164	215	161	54
General Revenue Total	16,681	16,807	16,836	(29)
Total-Superior Court	16,846	17,022	16,997	25
Family Court				
General Revenue Total	12,622	12,695	13,172	(477)
Federal Funds Total	2,950	3,565	1,940	1,625
Restricted Receipts Total	148	148	125	23
Total-Family Court	15,720	16,408	15,236	1,172
District Court				
General Revenue Total	7,924	8,154	8,075	79
Federal Funds Total	0	5	(2)	7
Restricted Receipts Total	0	0	(1)	1
Total-District Court	7,924	8,159	8,072	87
Traffic Tribunal				
General Revenue Total	6,220	6,261	6,290	(29)
Total-Traffic Tribunal	6,220	6,261	6,290	(29)
Worker's Compensation Court				
Restricted Receipts Total	6,009	6,607	6,264	343
Total-Worker's Compensation Court	6,009	6,607	6,264	343
General Revenue Fund Total-Judicial Dept	67,768	67,236	67,428	(192)
Federal Grant Fund Total-Judicial Dept	3,750	4,713	2,651	2,062
Restricted Fund Total-Judicial Dept	7,046	7,641	7,209	432
Other Fund Total-Judicial Dept	470	401	245	156
Total-Judicial Department	79,034	79,990	77,534	2,456

Exhibit A-98

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Militia of the State				
National Guard				
Rails to Trails	0	0	0	0
RICAP-Bristol Armory Rehabilitation	290	290	195	95
RICAP-Benefit St. Arsenal Rehabilitation	192	62	29	33
RICAP-Schofield Armory Rehabilitation	120	120	0	120
RICAP-US Property and Finance Office-HVAC	42	42	0	42
RICAP-Warren Armory	301	301	7	294
RICAP - Warwick Armory Boiler	50	25	0	25
RICAP-Vehicle Exhaust Vent System	1	0	0	0
RICAP - North Smithfield Armory	46	46	2	44
RICAP-CSMS/Armory Construction	376	0	0	0
RICAP-AMC Roof Rehabilitation	100	0	0	0
RICAP-Army Aviation Support Facility	25	0	0	0
General Revenue Total	1,678	1,550	1,442	108
Federal Funds Total	7,908	8,402	5,021	3,381
Restricted Receipts Total	0	10	0	10
Total-National Guard	11,130	10,849	6,697	4,152
Emergency Management				
General Revenue Total	1,119	552	578	(26)
Federal Funds Total	26,886	22,556	17,383	5,173
Restricted Receipts Total	128	167	80	87
Total-Emergency Management	28,133	23,274	18,041	5,233
General Revenue Fund Total-Militia of the State	2,797	2,102	2,020	82
Federal Grant Fund Total-Militia of the State	34,794	30,958	22,404	8,554
Restricted Fund Total-Militia of the State	128	177	80	97
Other Fund Total-Militia of the State	1,544	887	233	654
Total-Militia of the State	39,263	34,123	24,738	9,385
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,438	4,205	4,037	168
General Revenue Fund Total-E-911 Uniform Emer Telephone S	4,438	4,205	4,037	168
Total-E-911 Uniform Emergency Telephone System	4,438	4,205	4,037	168

Exhibit A-99

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	235	223	212	11
General Revenue Fund Total-Fire Safety Code	235	223	212	11
	0	0	0	0
Total-Fire Safety Code Board of Appeal and Review	235	223	212	11
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	1,739	1,678	1,515	163
Federal Funds Total	286	342	100	242
Other Funds	0	20	0	20
General Revenue Fund Total-Div. of Fire Safety	1,739	1,678	1,515	163
Federal Grant Fund Total-Div. of Fire Safety	286	342	100	242
Other Fund Total-Div. of Fire Safety	0	20	0	20
Total-Division of Fire Safety	2,025	2,040	1,615	425
Commission on Judicial Tenure & Discipline				
General Revenue Total	133	128	96	32
General Revenue Fund Total-Comm on Judicial Tenure	133	128	96	32
Total-Commission on Judicial Tenure & Discipline	133	128	96	32
Rhode Island Governor's Justice Commission				
General Revenue Total	163	162	162	0
Federal Funds Total	5,701	5,899	4,749	1,150
Restricted Receipts Total	90	90	20	70
General Revenue Fund Total-RI Gov Just Comm	163	162	162	0
Federal Grant Fund Total-RI Gov Just Comm	5,701	5,899	4,749	1,150
Restricted Fund Total-RI Gov Just Comm	90	90	20	70
Total-Rhode Island Governor's Justice Commission	5,954	6,151	4,931	1,220

Exhibit A-100

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Municipal Police Training School				
General Revenue Total	356	352	343	9
Federal Funds Total	35	73	22	51
General Revenue Fund Total-Municipal Police Training School	356	352	343	9
Federal Grant Fund Total-Municipal Police Training School	35	73	22	51
Total-Municipal Police Training School	391	425	365	60
Rhode Island State Police				
RICAP - Barracks & Training Headquarters'	425	89	85	4
RICAP-Headquarters Repair/Renovation	107	0	0	0
Traffic Enforcement-Municipal Training	150	119	141	(22)
Lottery Commission Assistance	124	116	114	2
Road Construction Reimbursement	1,499	1,587	2,106	(519)
General Revenue Total	40,686	39,381	39,147	234
Federal Funds Total	1,300	2,204	1,323	881
Restricted Receipts Total	223	590	379	211
General Revenue Fund Total-State Police	40,686	39,381	39,147	234
Federal Grant Fund Total-State Police	1,300	2,204	1,323	881
Restricted Fund Total-State Police	223	590	379	211
Other Fund Total-State Police	2,305	1,912	2,446	(534)
Total-Rhode Island State Police	44,515	44,087	43,296	791
Office of Public Defenders				
General Revenue Total	6,575	6,377	6,291	86
Federal Funds Total	442	526	384	142
General Revenue Fund Total-Office of Public Defenders	6,575	6,377	6,291	86
Federal Grant Fund Total-Office of Public Defenders	442	526	384	142
Total-Office of Public Defenders	7,017	6,903	6,675	228

Exhibit A-101

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Environmental Management				
Policy and Administration				
DOT Recreational Projects	21	21	25	(4)
Blackstone Bikepath Design	1,244	1,243	332	911
RICAP-Dam Repair	1,512	400	106	294
General Revenue Total	8,195	8,128	7,923	205
Permanent Streamlining	0	0	0	0
Federal Funds Total	2,939	3,100	549	2,551
Restricted Receipts Total	3,066	3,074	3,453	(379)
Total-Policy and Administration	16,977	15,966	12,387	3,579
Natural Resources				
RICAP-Westerly Boat Ramp	1	0	0	0
RICAP-Fort Adams Rehabilitation	250	250	250	0
RICAP-Recreational Facilities Improvement	687	1,137	133	1,004
RICAP-Fish and Wildlife Office/Laboratory	0	0	0	0
RICAP-Wickford Marine facility	50	0	0	0
RICAP-Galilee Piers	1,552	800	303	497
RICAP-Newport Piers	2	2	0	2
RICAP-Boyd's Marsh Habitat Restoration	400	0	0	0
General Revenue Total	15,053	15,067	15,447	(380)
Federal Funds Total	13,668	14,019	7,306	6,713
Restricted Receipts Total	3,677	3,239	2,767	472
Total-Natural Resources	35,339	34,513	26,206	8,307
Environmental Protection				
Aquafund	0	0	0	0
General Revenue Total	7,769	7,638	8,079	(441)
Rose Hill	299	0	0	0
RIPDES-State	663	663	0	663
Federal Funds Total	8,566	8,950	6,781	2,169
RIPDES-Federal	180	180	0	180
Restricted Receipts Total	3,305	3,283	3,637	(354)
Total-Environmental Protection	20,782	20,713	18,497	2,216
General Revenue Fund Total-DEM	31,978	31,496	31,448	48
Federal Grant Fund Total-DEM	25,353	26,249	14,636	11,613
Restricted Fund Total-DEM	10,048	9,595	9,856	(261)
Other Fund Total-DEM	5,719	3,852	1,149	2,703
Total-Department of Environmental Management	73,098	71,192	57,090	14,102
Coastal Resources Management Council				
RICAP - South Coast Restoration Project	968	0	0	0
RICAP -Allins Cove	172	172	172	0
General Revenue Total	1,550	1,462	1,458	4
Federal Funds Total	1,466	2,362	1,541	821
Restricted Total	4,500	5,210	5,210	0

Exhibit A-102

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
General Revenue Fund Total-Coastal Resources	1,550	1,462	1,458	4
Federal Grant Fund Total-Coastal Resources	1,466	2,362	1,541	821
Restricted Fund Total-Coastal Resources	4,500	5,210	5,210	0
Other Fund Total-Coastal Resources	1,140	172	172	0
Total-Coastal Resources Management Council	8,657	9,206	8,381	825
Water Resources Board				
RICAP-Big River Management Area	105	105	92	13
RICAP-Groundwater Protection/Acquisition	0	0	0	0
RICAP-Water Allocation Plan	70	70	70	0
RICAP-Supplemental Water Supplies Development	39	39	39	0
General Revenue Total	941	905	911	(6)
Federal Total	0	828	554	274
Restricted Receipts Total	984	984	538	446
General Revenue Fund Total-Water Resources Board	941	905	911	(6)
Federal Grant Fund Total-Water Resources Board	0	828	554	274
Restricted Fund Total-Water Resources Board	984	984	538	446
Other Fund Total-Water Resources Board	214	214	202	12
Total-Water Resources Board	0	0	0	0
Total-Water Resources Board	2,139	2,930	2,205	725
Departmental Expenditures	4,635,955	4,704,007	4,594,643	109,364
Transfer of Excess Budget Reserve to Bond Capital Fund			55,548	(55,548)
Total Expenditures	4,635,955	4,704,007	4,650,191	53,816
Change in Fund Balance	<u>\$ 13,677</u>	<u>\$ 51,265</u>	<u>(15,546)</u>	<u>66,811</u>
Beginning Fund Balance			171,840	
Ending Fund Balance			<u>\$ 156,294</u>	
General Revenue Funds Total	\$ 2,791,768	\$ 2,789,670	\$ 2,726,473	63,197
Federal Grants Funds Total	1,632,389	1,700,783	1,664,496	36,287
Restricted Funds Total	108,229	109,393	109,566	(173)
Other funds total	103,569	104,161	94,108	10,053
General Fund Grand Total	<u>\$ 4,635,955</u>	<u>\$ 4,704,007</u>	<u>\$ 4,594,643</u>	<u>109,364</u>

*May not add due to rounding.

Exhibit A-103

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Taxes	\$ 141,600	\$ 141,600	\$ 142,487	\$ 887
Departmental restricted revenue	37,408	27,000	1,670	(25,330)
Federal grants	197,231	197,341	167,207	(30,134)
Other revenues	4,000	4,590	2,119	(2,471)
Total revenues	380,239	370,531	313,483	(57,048)
Other financing sources:				
Operating transfers in			64,288	64,288
Total revenues and other financing sources	380,239	370,531	377,771	7,240
Expenditures:				
Central Management				
Gasoline Tax	3,264	3,442	3,160	282
Federal Funds	9,222	9,218	3,829	5,389
Total - Central Management	12,486	12,660	6,989	5,671
Management and Budget				
Gasoline Tax	2,066	1,902	1,871	31
Total - Management and Budget	2,066	1,902	1,871	31
Infrastructure - Engineering				
Gasoline Tax	53,609	52,064	55,387	(3,323)
RICAP - RIPTA Land and Buildings		590		590
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	4,000		4,000
Federal Funds	188,009	188,124	158,974	29,150
Restricted Receipts	36,408	26,000	31,105	(5,105)
Subtotal - Infrastructure - Engineering	283,026	271,778	245,466	26,312
State Match - FHWA			25,761	(25,761)
Total - Infrastructure - Engineering	283,026	271,778	271,227	551
Infrastructure - Maintenance				
Gasoline Tax	39,178	39,447	41,123	(1,676)
Total - Infrastructure - Maintenance	39,178	39,447	41,123	(1,676)
Total Expenditures	336,756	325,787	321,210	4,577
Other financing uses:				
Transfers to other funds			44,219	(44,219)
Total expenditures and other financing uses	336,756	325,787	365,429	(39,642)
Net change in net assets	<u>\$ 43,483</u>	<u>\$ 44,744</u>	<u>12,342</u>	<u>(32,402)</u>
Net assets, beginning			25,454	
Net assets, ending			<u>\$ 37,796</u>	

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

Rhode Island Temporary Disability Insurance Fund
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
* Revenues:				
Taxes	\$ 178,758	\$ 178,758	\$ 178,758	\$
Other revenues	1,088	1,088	1,088	
Total revenues	179,846	179,846	179,846	
Expenditures:				
Department of Labor and Training				
Income Support				
Temporary Disability Insurance Fund	177,671	162,518	163,463	(945)
Total - Income Support	177,671	162,518	163,463	(945)
Total - Department of Labor and Training	177,671	162,518	163,463	(945)
Treasury Department				
Temporary Disability Insurance Fund	246	255	219	36
Total - Treasury Department	246	255	219	36
Total Expenditures	177,917	162,773	163,682	(909)
Net change in fund balance	1,929	17,073	16,164	(909)
* Fund balance - beginning	114,094	114,094	114,094	
Fund balance - ending	<u>\$ 116,023</u>	<u>\$ 131,167</u>	<u>\$ 130,258</u>	<u>\$ (909)</u>

* Resources are not legislatively adopted, budgeted revenues and opening surplus are assumed to equal actual amounts.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2004
(Expressed in thousands)

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2004

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2003	5,695,358	8,746,641	3,051,283	65.1%	1,440,744	211.8%
06/30/2002	5,907,680	8,141,130	2,233,450	72.6%	1,378,905	162.0%
06/30/2001	6,026,141	7,768,536	1,742,395	77.6%	1,287,476	135.3%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%
06/30/2002	17,770	23,527	5,757	75.5%	10,933	52.7%
06/30/2001	14,386	16,650	2,264	86.4%	9,139	24.8%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%
06/30/2002	11,129	16,243	5,114	68.5%	4,738	107.9%
06/30/2001	9,190	12,026	2,836	76.4%	4,092	69.3%

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the R.I Capital Fund projects and any unexpended balances designated by the General Assembly.

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Exhibit B - State Economic Information

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Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced modest population increases between 1988 and 2003. The 2000 United States census count for Rhode Island was 1,050,664 or 4.4 percent more than the 1,005,995 counted in 1990. In contrast, the total United States population increased by 13.0 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has grown to 1,076,164 as of July 1, 2003.

Personal Income and Poverty. Per capita personal income levels in Rhode Island have been consistent with those in the United States since 1988. In 2003, Rhode Island per capita income was \$31,937 vs. U.S. per capita income of \$31,459. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2003 period, Rhode Island's average poverty rate was 10.7 percent vs. a U.S. average poverty rate of 12.1 percent.

Employment. According to the U.S. Bureau of Labor Statistics, total Rhode Island non-farm employment grew at a rate of 0.2 percent in 2002, 1.0 percent in 2003 and 0.8 percent in 2004.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 21.3 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of May 2003 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1989-90 academic year. For 2001-02 Rhode Island spent 27.7 percent more per pupil than the national average.

Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the past ten years, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

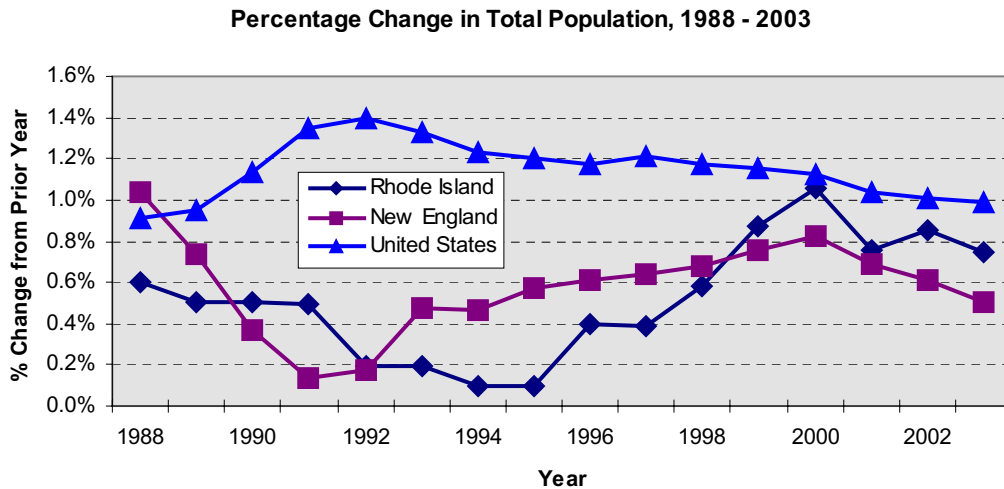
Between 1993 and 2003 Rhode Island's population increased by 6.0 percent, compared to a 6.5 percent increase for the New England region, and a 11.9 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.5 percent compared to 2.7 percent for New England as a whole. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1993 to 2003 period, the United States' average annual population growth rate was 1.1 percent, nearly twice that of Rhode Island.

Population, 1988 - 2003 (in thousands)

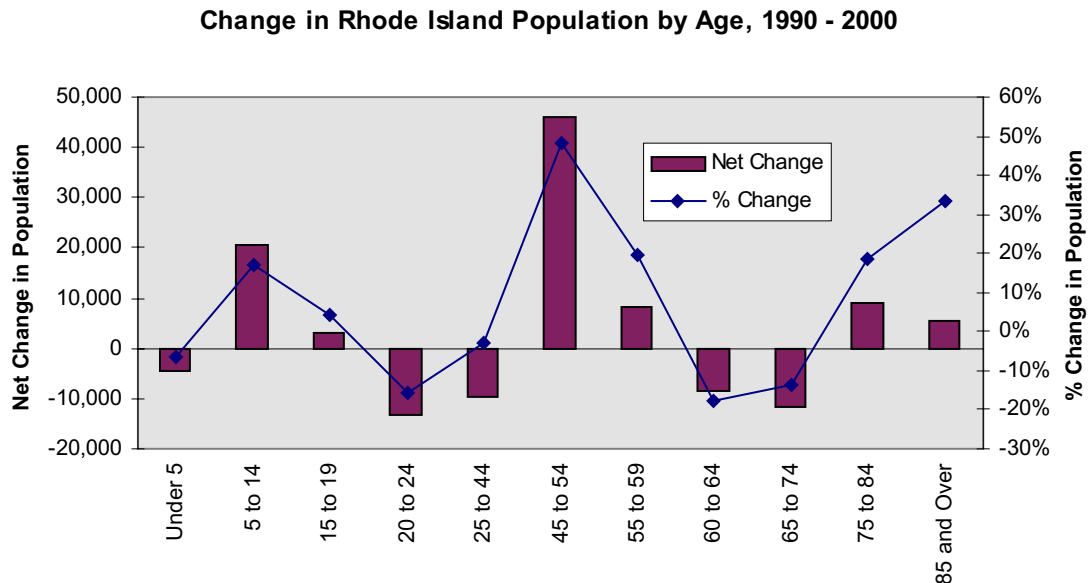
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1988	996	0.6%	13,085	1.0%	244,499	0.9%
1989	1,001	0.5%	13,182	0.7%	246,819	0.9%
1990	1,006	0.5%	13,230	0.4%	249,623	1.1%
1991	1,011	0.5%	13,248	0.1%	252,981	1.3%
1992	1,013	0.2%	13,271	0.2%	256,514	1.4%
1993	1,015	0.2%	13,334	0.5%	259,919	1.3%
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,051	1.1%	13,952	0.8%	282,178	1.1%
2001	1,059	0.8%	14,048	0.7%	285,094	1.0%
2002	1,068	0.8%	14,134	0.6%	287,974	1.0%
2003	1,076	0.7%	14,205	0.5%	290,810	1.0%

U.S. Department of Commerce. Bureau of Economic Analysis

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



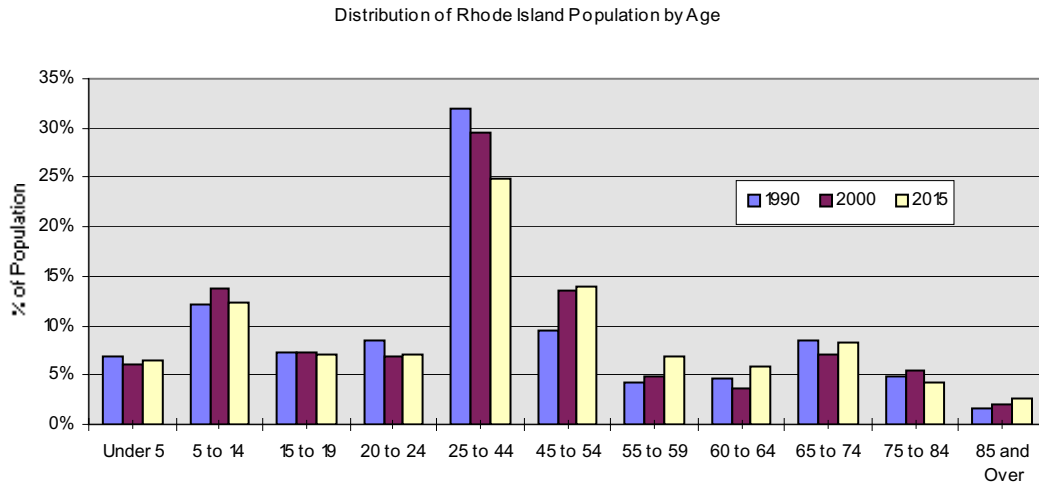
The following chart shows the net change in Rhode Island's population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "5 to 14" age group is a reflection of the "baby boom echo" generation.



Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the "baby boom" generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders should rise further.



U.S. Census Bureau

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita personal income has tracked that of the United States throughout the 1988 – 2003 period. In general, Rhode Island's per capita nominal personal income exceeded that of the United States from 1988 to 1997, with the exception of 1994 and 1996. Over this period, Rhode Island per capita nominal personal income averaged \$269 more than United States per capita nominal personal income. From 1998 to 2001 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$367. In 2002 and 2003, Rhode Island per capita nominal personal income again exceeded that of the U.S. as a whole by an average of \$207. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1988 – 2003 by an average \$4,373. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at \$6,905 in 2000. In 2003, the gap had fallen 11.9 percent to \$6,081.

From 1988 to 1989, per capita real income levels in Rhode Island grew at an annual rate higher than that for the United States. This trend was reversed in 1990 – 1992 as Rhode Island slipped into a recession that was compounded by the banking crisis of 1990. From 1993 to 1998, the relationship between per capita real income growth in Rhode Island alternately exceeded and trailed that of the United States. In 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. In 2001 – 2003, this pattern again reversed itself as the national economy slid into recession. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. In fact, over the fifteen-year period from 1988 to 2003, Rhode Island per capita real income growth has exceeded that of New England as a whole on seven occasions, 1988 – 1989, 1993, 1995, and, most recently, 2001 – 2003.

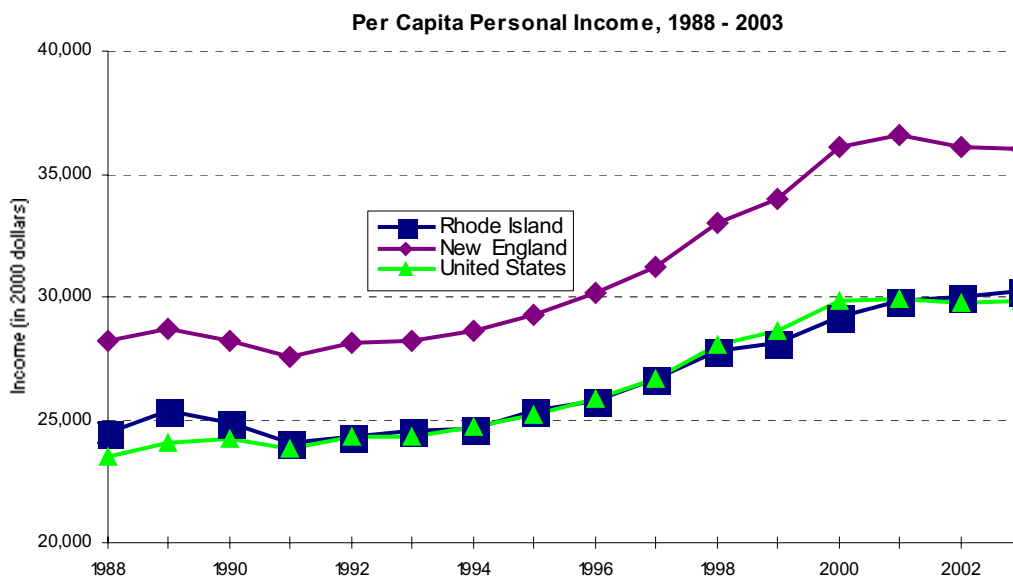
The chart below the table shows real per capita personal income in Rhode Island, New England and the United States since 1988. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States but consistently lags that of the New England region.

Per Capita Personal Income, 1988 – 2003

Year	Nominal Income (in current dollars)				Real Income (in 2000 dollars)			Percentage Change in Real Income		
	R.I.	N.E.	U.S.	2000 Deflator	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1988	18,045	20,811	17,331	73.76%	24,466	28,216	23,498	5.3%	4.7%	2.7%
1989	19,546	22,083	18,520	76.97%	25,393	28,689	24,060	3.8%	1.7%	2.4%
1990	20,006	22,712	19,477	80.50%	24,853	28,215	24,196	-2.1%	-1.7%	0.6%
1991	20,049	22,969	19,892	83.42%	24,034	27,535	23,846	-3.3%	-2.4%	-1.4%
1992	20,867	24,172	20,854	85.82%	24,314	28,165	24,299	1.2%	2.3%	1.9%
1993	21,586	24,752	21,346	87.81%	24,584	28,190	24,311	1.1%	0.1%	0.0%
1994	22,097	25,687	22,172	89.65%	24,647	28,651	24,731	0.3%	1.6%	1.7%
1995	23,225	26,832	23,076	91.58%	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	93.55%	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	95.12%	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	95.98%	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	97.58%	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,216	36,121	29,847	100.00%	29,216	36,121	29,847	3.8%	6.4%	4.2%
2001	30,434	37,328	30,580	102.09%	29,810	36,562	29,953	2.0%	1.2%	0.4%
2002	31,035	37,420	30,795	103.55%	29,972	36,138	29,740	0.5%	-1.2%	-0.7%
2003	31,937	38,018	31,459	105.51%	30,269	36,033	29,816	1.0%	-0.3%	0.3%

U.S. Department of Commerce. Bureau of Economic Analysis

Note: The 2000 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures.



U.S. Department of Commerce, Bureau of Economic Analysis

Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend until recently. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

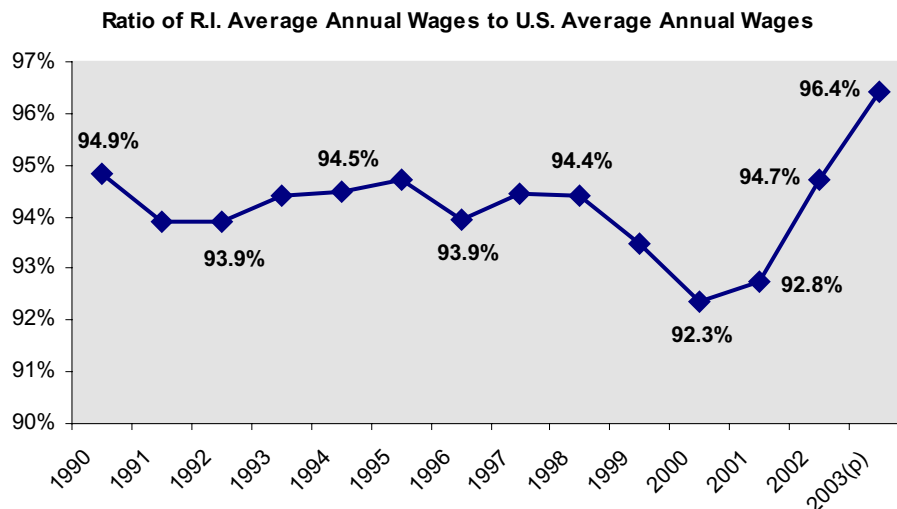
Average Annual Pay, 1990 – 2003
(in current dollars)

Year	Annual Pay		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1990	22,387	23,602	94.9%	-	-
1991	23,082	24,578	93.9%	3.1%	4.1%
1992	24,315	25,897	93.9%	5.3%	5.4%
1993	24,889	26,361	94.4%	2.4%	1.8%
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003(p)	36,415	37,765	96.4%	4.6%	2.7%

U.S. Department of Labor. Bureau of Labor Statistics

(p) = preliminary

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1990 – 2003 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1988 and 2004. The data for each year is the Consumer Price Index for all urban consumers (CPI-U) within the designated area and the percentage change in the CPI-U from the previous year. From 1988 to 1992, the consumer price inflation in the Northeast consistently exceeded that for the United States by at least 0.3 percent. From 1993 to 2001, consumer price inflation rate in the Northeast has been, on average, slightly below that of the United States. During this period, consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1993 – 1996, 1998 – 1999, and 2001. In 2000, consumer price inflation in the Northeast region was equal to that of the United States. In 2002, 2003, and 2004, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, and 0.8 percent respectively.

Consumer Price Index for All Urban Consumers (CPI-U), 1988 – 2004
(1982 – 1984 = 100)

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1988	121.8	118.3	103.0%	5.0%	4.1%
1989	128.6	124.0	103.7%	5.6%	4.8%
1990	136.3	130.7	104.3%	6.0%	5.4%
1991	142.5	136.2	104.6%	4.5%	4.2%
1992	147.3	140.3	105.0%	3.4%	3.0%
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%

U.S. Department of Labor. Bureau of Labor Statistics

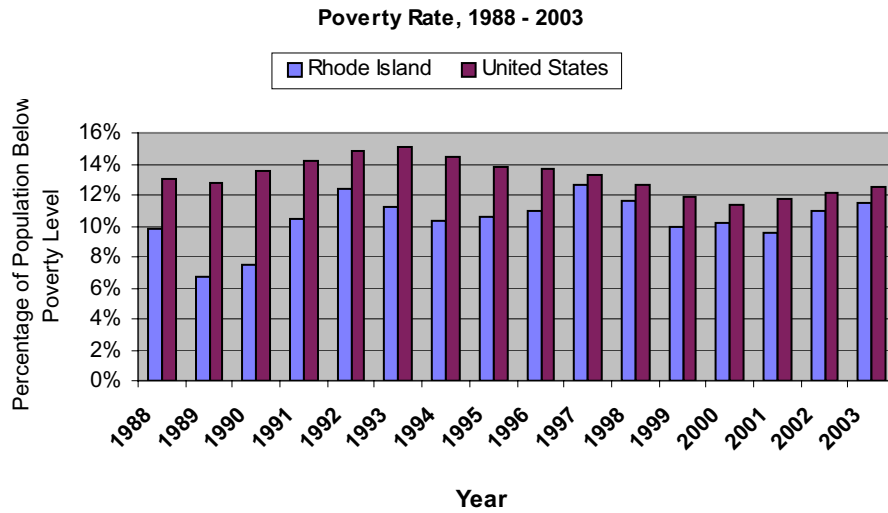
Poverty. In 2003, The Rhode Island poverty rate was once again below the poverty rate for the United States as a whole. Between 1988 and 2003, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 6.7 percent in 1989 to a high of 12.7 percent in 1997. During the same time, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in the 2002-2003 period, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1988 through 2003.

Poverty Rate, 1988 – 2003

Year	R.I.	U.S.	Ratio R.I./U.S.	Percentage Change	
				R.I.	U.S.
1988	9.8	13.0	75.4%	21.0%	-3.0%
1989	6.7	12.8	52.3%	-31.6%	-1.5%
1990	7.5	13.5	55.6%	11.9%	5.5%
1991	10.4	14.2	73.2%	38.7%	5.2%
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the jump in the base level of the poverty rate in Rhode Island between the 1980s and the 1990s. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1990 to 2004 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Non-farm Employment by Industry, 1990 – 2004

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Year	Employed	Change	Employed	Change	Employed	Change	Employed	Change	Employed	Change	Employed	Change	Employed	Change	Employed	Change
1990	18,700	-	95,100	-	77,500	-	79,500	-	66,200	-	51,900	-	62,500	-	451,200	-
1991	13,700	-26.7%	87,500	-8.0%	71,000	-8.4%	73,100	-8.1%	66,800	0.9%	48,600	-6.4%	60,900	-2.6%	421,500	-6.6%
1992	12,500	-8.8%	84,800	-3.1%	71,100	0.1%	72,300	-1.1%	72,100	7.9%	50,900	4.7%	61,200	0.5%	424,800	0.8%
1993	12,800	2.4%	83,600	-1.4%	71,200	0.1%	74,700	3.3%	74,200	2.9%	52,100	2.4%	61,400	0.3%	430,000	1.2%
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	440,100	1.4%
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	441,600	0.3%
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	450,000	1.9%
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	458,000	1.8%
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	465,500	1.6%
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	476,700	2.4%
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	478,400	0.4%
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	479,400	0.2%
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	484,300	1.0%
2004	21,000	0.0%	56,900	-3.1%	80,000	-1.0%	98,700	4.2%	92,900	2.1%	73,100	1.5%	65,800	-0.6%	488,400	0.8%

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1990 and 1991, total nonfarm employment in Rhode Island declined 6.6 percent. During this time all sectors experienced declines, with the exception of Educational and Health Services, which increased by 0.9 percent. These decreases in employment were the result of the recession that gripped the State and the nation during this time. The economic recovery took hold in Rhode Island in 1992 with nonfarm employment growing by 0.8 percent. This growth in total employment was followed by strong gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the “jobless” recovery commenced in early 2002. In 2003 and 2004 Rhode Island employment growth moved sharply upward to a rate of 1.0 percent and 0.8 percent respectively reflecting the strengthening national economy.

Non-farm Employment by Industry. The table below summarizes the changes in Rhode Island employment by sector from 1994 to 2004. Total nonfarm employment increased by 12.5 percent during this period, but the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 31.1 percent during this time period while average employment growth for all other sectors excluding government was 21.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 57.9 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1994 to 2004 period, transforming from a manufacturing based economy to service based economy.

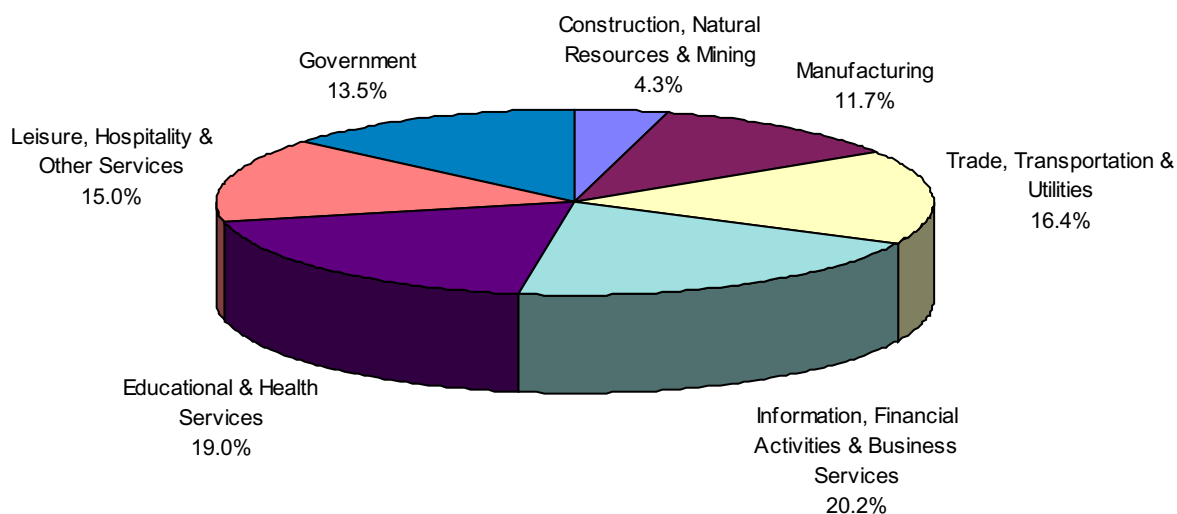
Rhode Island Non-Farm Employment by Industry, 1994 & 2004

Employment Sector	1994	% of Total	2004	% of Total	% Change 1994-2004
Construction, Natural Resources & Mining	13,300	3.1%	21,000	4.3%	57.9%
Manufacturing	82,600	19.0%	56,900	11.7%	-31.1%
Trade, Transportation & Utilities	72,400	16.7%	80,000	16.4%	10.5%
Information, Financial Activities & Business Services	76,200	17.5%	98,700	20.2%	29.5%
Educational & Health Services	75,000	17.3%	92,900	19.0%	23.9%
Leisure, Hospitality & Other Services	53,100	12.2%	73,100	15.0%	37.7%
Government	61,700	14.2%	65,800	13.5%	6.6%
Total Employment	434,200	100.0%	488,400	100.0%	12.5%

R.I. Department of Labor and Training. Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Information, Financial Activities and Business Services sector, with 20.2 percent of the nonfarm work force in 2004, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.0 percent), Trade, Transportation and Utilities (16.4 percent), and Leisure, Hospitality and Other Services employment (15.0 percent).

Rhode Island Nonfarm Employment by Industry, 2004



Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1990 and 2004, falling by 40.2 percent over this period. The rate of decline in manufacturing employment began to slow with the end of the recession and the beginning of recovery in 1992. For example, in 1991 manufacturing employment fell 8.0 percent and another 3.1 percent in 1992. By 2000, this rate of decline had slowed to 1.4 percent before ticking back up to 4.8 percent in 2001. The rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 5.8 percent in 2003 and 3.1 percent in 2004.

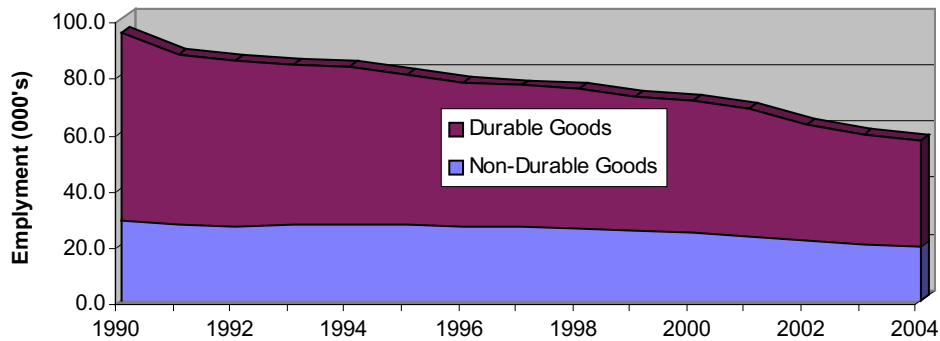
Manufacturing Establishment Employment in Rhode Island, 1990 - 2004
(In Thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Non-Durable Goods	28.6	27.1	26.6	26.9	26.9	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5
Percentage Change	-	-5.2%	-1.8%	1.1%	0.0%	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%
Durable Goods	66.6	60.4	58.2	56.7	55.7	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4
Percentage Change	-	-9.3%	-3.6%	-2.6%	-1.8%	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%
Total Manufacturing Employment	95.1	87.5	84.8	83.6	82.6	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	56.9
Percentage Change	-	-8.0%	-3.1%	-1.4%	-1.2%	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%

R.I. Department of Labor and Training. Labor Market Information

Employment in the manufacture of non-durable goods, which had declined or remained even in every year since 1990, grew in 1993 and 1997 (at rates of 1.1 percent and 0.4 percent, respectively). Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See “Economic Base and Performance” below.)

Manufacturing Establishment Employment in Rhode Island, 1990 - 2004



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the largest employers in Rhode Island for 2004. Together, the top 100 employers employ 145,297 or over 29 percent of the total nonfarm wage and salary employment in Rhode Island.

Rhode Island's Largest Employers		
Employed	Employer	Primary Business Activity
15,259	State of Rhode Island	Government
11,110	Lifespan	Hospital
10,400	U.S. Government (excluding military)	Government
5,858	Care New England	Hospital
5,630	Diocese of Providence	Catholic Church
5,183	CVS Corporation	Pharmacies
4,984	Royal Bank of Scotland	Bank
4,555	Stop & Shop Supermarket Co. (Royal Ahold)	Grocery Stores
4,450	Brown University	University
3,636	Bank of America/Fleet	Bank
2,383	RIARC	Association for Retarded Citizens
2,260	Shaw's Super Market (J. Sainsbury plc)	Grocery Stores
2,150	Metropolitan Life Insurance Co.	Insurance
2,075	General Dynamics Corp.	Ship & Boat Building Mfg.
1,926	St. Joseph Health Services of Rhode Island	Hospital
1,875	WAL-Mart	Retail
1,840	The Jan Companies	Eating Places
1,749	Raytheon Company	Nautical Systems & Equipment Mfg.
1,685	McDonald's	Eating Places
1,653	Memorial Hospital of Rhode Island	Hospital
1,600	Fidelity Investments	Investment Services
1,581	Amica Mutual Insurance Co.	Insurance
1,435	Verizon	Communications
1,340	Roger Williams Medical Center	Hospital
1,300	American Power Conversion	Uninterruptible Power Supplies & Access.
1,300	Amgen	Biotechnology
1,270	Johnson & Wales University	University
1,250	Sovereign BankCorp	Bank
1,250	The Home Depot	Building Supplies
1,250	Brooks Pharmacy	Pharmacies
1,235	Cox Communications	Communications
1,198	Blue Cross & Blue Shield	Medical Insurance
1,180	Leviton Manufacturing Co., Inc.	Household Wiring Devices & Switches
1,175	Landmark Health System	Hospital
1,125	A.H. Belo Company	Publishing
1,120	GTECH Corporation	Lottery Systems
1,050	South County Hospital	Hospital
1,050	Securitas, AB	Security Services
1,025	Hasbro, Inc.	Toy Manufacturing
1,000	United Parcel Service	Package Delivery
946	Veterans' Administration Medical Center	Hospital
910	Chelo's	Eating Places
900	Rhode Island School of Design	College
873	RI Public Transit Authority	Public Transport Authority
865	Stanley Bostitch	Building Products
856	Gilbane Building Company	Construction
840	Homefront Health Care	Health Care
810	The May Department Stores	Department Stores
800	US Security Associates, Inc.	Security Services
797	Laidlaw Transit, Inc.	Transportation

R.I. Economic Development Corporation, Research Division.

Note: As of 2004, the Largest Employers list no longer includes Municipal Employment.

Unemployment. From 1988 to 1989, the Rhode Island unemployment rate was lower than the national unemployment rate. With the onset of recession in 1990, this pattern was reversed and remained that way until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's where it remained for 2003 and 2004. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1988 and 2004.

Annual Average Civilian Labor Force and Unemployment, 1988 – 2004
(In Thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
1988	525	6,914	121,669	16	216	6,701	3.1%	3.1%	5.5%	56.4%
1989	525	6,998	123,869	21	269	6,528	4.1%	3.8%	5.3%	77.4%
1990(c)	520	7,153	125,840	35	409	7,047	6.8%	5.7%	5.6%	121.4%
1991(c)	518	7,104	126,346	45	570	8,628	8.6%	8.0%	6.8%	126.5%
1992(c)	531	7,091	128,105	48	571	9,613	9.0%	8.1%	7.5%	120.0%
1993(c)	525	7,074	129,200	41	482	8,940	7.8%	6.8%	6.9%	113.0%
1994(c)	515	7,020	131,056	36	415	7,996	7.1%	5.9%	6.1%	116.4%
1995(c)	506	7,040	132,304	35	378	7,404	7.0%	5.4%	5.6%	125.0%
1996(c)	518	7,108	133,943	27	341	7,236	5.1%	4.8%	5.4%	94.4%
1997(c)	532	7,248	136,297	28	320	6,739	5.3%	4.4%	4.9%	108.2%
1998(c)	531	7,256	137,673	26	255	6,210	4.9%	3.5%	4.5%	108.9%
1999(c)	542	7,329	139,368	22	241	5,880	4.1%	3.3%	4.2%	97.6%
2000(b)	543	7,355	142,583	22	203	5,692	4.1%	2.8%	4.0%	102.5%
2001(b)	546	7,420	143,734	26	272	6,801	4.7%	3.7%	4.7%	100.0%
2002(b)	553	7,548	144,863	28	366	8,378	5.1%	4.8%	5.8%	87.9%
2003(b)	573	7,554	146,510	30	409	8,774	5.3%	5.4%	6.0%	88.3%
2004(p)	567	7,543	147,401	30	356	8,149	5.2%	4.7%	5.5%	94.5%

U.S. Department of Labor. Bureau of Labor Statistics

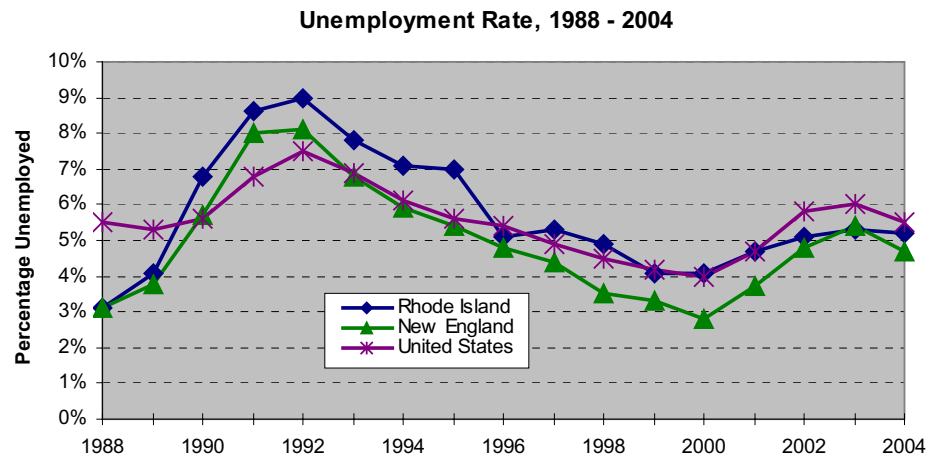
(b) Benchmarked (R.I. & N.E. only)

(c) Adjusted to incorporate revised intercensal population controls for the 1990s (R.I. & N.E. only)

(p) preliminary

Note: The U.S. figures are provisional from 2000 to 2004 due to changes in population controls.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1988-2004 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

In 1998 and 1999, growth in United States Gross State Product (GSP) was greater than GSP growth in Rhode Island and New England. For 2000 – 2003, Rhode Island GSP growth exceeded that of the United States. During the 2001 – 2003 period, Rhode Island GSP growth exceeded that of New England as well. The table below gives the Gross State Product and the annual growth rates for Rhode Island, New England, and the United States over the 1998 – 2003 period.

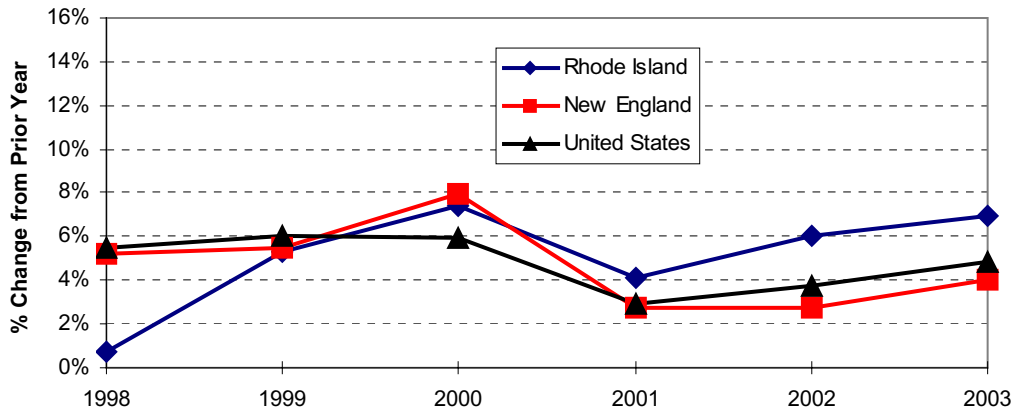
Gross State Product, 1998 – 2003
(Millions of Current Dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1998	29,620	2.3%	495,753	5.0%	8,679,658	6.2%
1999	31,203	5.3%	523,099	5.5%	9,201,138	6.0%
2000	33,504	7.4%	564,534	7.9%	9,749,105	6.0%
2001	34,888	4.1%	579,858	2.7%	10,031,393	2.9%
2002	36,988	6.0%	595,910	2.8%	10,407,141	3.7%
2003	39,569	7.0%	619,967	4.0%	10,911,103	4.8%

U.S. Department of Commerce. Bureau of Economic Analysis

The graph below plots the percentage change in GSP for Rhode Island, New England, and the United States over the 1998-2003 period. Rhode Island Gross State Product surpassed that of the United States in 2000 and New England in 2001. In 2002 and 2003, Rhode Island's GSP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GSP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.

Percentage Change in Gross State Product 1998 - 2003



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island real Gross State Product (GSP) of several industrial and non-industrial sectors.

Gross State Product by Industry in Rhode Island, 1998 – 2002
(Millions of Dollars)

Industrial Sector	1998	1999	2000	2001	2002	Growth
Finance, Insurance, and Real Estate	7,187	7,677	8,591	9,180	9,828	36.75%
Retail and Wholesale Trade	3,352	3,605	3,865	3,967	4,484	33.77%
Government	3,644	3,823	4,143	4,280	4,470	22.67%
Education and Health Services	3,353	3,449	3,548	3,768	4,150	23.77%
Manufacturing, Agriculture, and Mining	3,982	3,899	4,093	4,023	3,956	-0.65%
Other Services	3,430	3,615	3,800	4,003	4,187	22.07%
Construction	1,503	1,761	1,808	1,935	2,047	36.19%
Leisure and Hospitality	990	1,105	1,220	1,287	1,356	36.97%
Information	1,036	1,069	1,098	1,242	1,301	25.58%
Transportation and Utilities	1,142	1,198	1,340	1,202	1,208	5.78%
Total GSP	29,619	31,201	33,506	34,887	36,987	24.88%

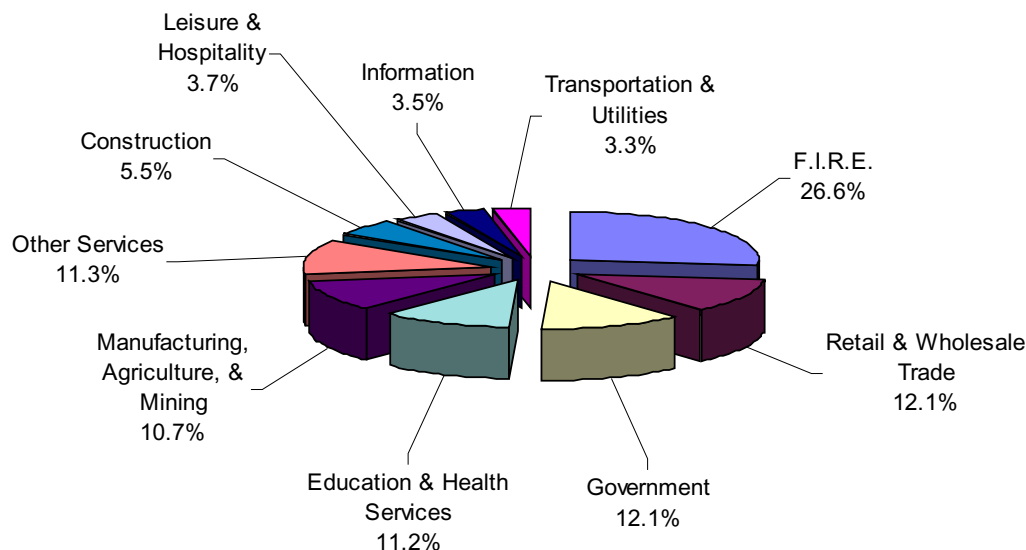
Bureau of Economic Analysis, U.S. Department of Commerce

As is apparent from the table, Rhode Island has experienced strong growth in all sectors except Manufacturing, Agriculture, and Mining and Transportation and Utilities. All but these two exceptions grew by over 20.0 percent from 1998 to 2002. The Finance, Insurance and Real Estate (FIRE) sector, Construction, and Leisure and Hospitality sectors grew the most markedly, all at over 36.0 percent during the 1998 – 2003 period. During this same period, the Manufacturing, Agriculture, and Mining sector has stagnated and Transportation and Utilities reached only 5.8% growth.

Gross State Product by Industry in Rhode Island

The pie chart below shows the share of total Gross State Product in 2002 attributable to each of the industry sectors noted above.

Gross State Product by Industry in Rhode Island 2002



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. FIRE's contribution to total GSP has grown from 24.3 percent of GSP in 1998 to 26.6 percent of GSP in 2002. In 2002, F.I.R.E. accounted for \$9.8 billion of total gross state product of \$37.0 billion. For the period 1998 – 2002 this sector expanded by a respectable 36.8 percent.

Retail and Wholesale Trade. Wholesale and retail trade, in 2002, was the second largest sector in Rhode Island at \$4.5 billion, or 12.1 percent of the total Gross State Product. This sector increased by 33.8 percent from the 1998 level as well as increasing in percent contribution to GSP. In 1998, Retail and Wholesale Trade comprised a slightly smaller piece of GSP at 11.3 percent of total.

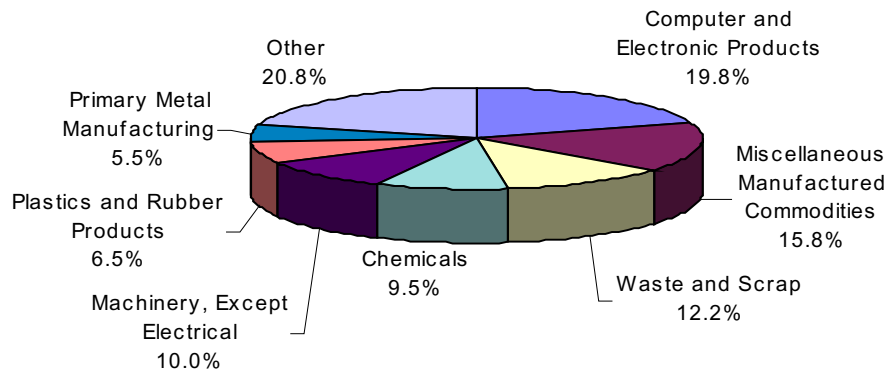
Government. At 12.1 percent of GSP in 2002, the Government sector has grown slowly and steadily since 1998. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes less as a percentage of GSP in 2002 than it did in 1998. In 1998, the Government sector accounted for 12.3 percent of GSP. The growth rate in 1999 was 4.9 percent, in 2000 it was 8.4 percent, in 2001 it was 3.3 percent, and in 2002 it was 4.4 percent. In 2002 Government sector contributed \$4.5 billion to total gross state product.

Other Services. Other Services consists of professional and technical services, management services, administrative and waste services, as well as other non-government services. Since 1998, Other Services have remained an integral sector accounting for 11.3 percent of Rhode Island's GSP in 2002. From 1998 to 2002, Other Services have grown by 22.1 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2002 was \$1.1 billion. This represented 3.0 percent of Rhode Island Gross State Product of \$37.0 billion. In 2004, Rhode Island's exports increased to \$1.3 billion.

Composition of Rhode Island Exports by Industry Group 2004



The most important exports, as shown in the pie chart above, were computer and electronic products (19.8 percent), miscellaneous manufactured commodities (15.8 percent), waste and scrap (12.2 percent), machinery, except electrical (10.0 percent) and chemicals (9.5 percent).

The table below provides greater detail of Rhode Island exports by industry for the 2001-2004 period.

Rhode Island Exports by Industry, 2001 – 2004
(in thousands)

	2001	2002	2003	2004
Total All Industries	\$ 1,268,612	\$ 1,121,005	\$ 1,177,475	\$1,286,324
Computer and Electronic Products	264,960	205,962	258,505	254,324
Miscellaneous Manufactured Commodities	163,733	141,823	153,774	203,171
Waste and Scrap	141,148	144,788	127,122	157,435
Chemicals	88,708	126,029	123,247	122,716
Machinery, Except Electrical	236,207	107,672	122,495	128,390
Plastics and Rubber Products	61,175	75,055	90,561	83,045
Primary Metal Manufacturing	82,420	89,841	61,791	70,252
Electrical Equipment, Appliances and Component	38,075	40,686	56,904	51,387
Fabricated Metal Products, NESOI	34,050	34,200	40,391	52,316
Textiles and Fabrics	27,495	31,929	32,108	31,162
Paper	24,950	23,090	20,130	17,243
Fish - Fresh, Chilled or Frozen & Other Marine Products	13,236	16,772	18,349	17,653
Transportation Equipment	25,791	20,624	18,073	30,687
Nonmetallic Mineral Products	21,334	13,997	11,102	10,567
Textile Mill Products	8,405	7,451	10,151	9,019
Special Classification Provisions, NESOI	9,738	9,129	6,938	7,619
Printing, Publishing and Similar Products	5,661	6,965	5,073	8,159
Food and Kindred Products	4,285	8,831	4,892	11,096
Furniture and Fixtures	3,124	3,217	4,368	7,254
Apparel and Accessories	3,062	2,819	2,214	3,005
Leather and Allied Products	2,368	2,624	2,115	2,060
Goods Returned to Canada (Exports Only); U.S. Goods	3,732	2,397	2,017	1,416
Petroleum and Coal Products	228	466	1,180	1,264
Wood Products	1,171	716	1,108	863
Minerals and Ores	271	356	1,024	1,235
Forestry Products, NESOI	607	973	670	1,035
Used or Second-Hand Merchandise	1,270	1,706	631	1,312
Agricultural Products	558	805	406	304
Livestock and Livestock Products	552	82	94	170
Prepackaged Software	0	0	36	165
Beverages and Tobacco Products	298	0	6	-

(WISER) - World Institute for Strategic Economic Research

U.S. Census Bureau, Foreign Trade Division

Retail Sales

According to the Economy.com, nominal retail sales for Rhode Island, New England, and the United States have increased each year. The table below shows the annual retail sales activity from 1985 – 2004. Note that Rhode Island's retail sales were stronger than those of New England and the United States in 2002 and 2003 although preliminary numbers reflect lower growth in 2004.

Retail Sales, 1984 – 2004 (Millions of Current Dollars, SAAR)

Year	Rhode Island		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1990	6,224	6.4%	107,391	1.4%	1,947,515	5.2%
1991	6,279	0.9%	108,970	1.5%	1,978,481	1.6%
1992	6,502	3.6%	111,407	2.2%	2,047,868	3.5%
1993	6,933	6.6%	113,723	2.1%	2,192,068	7.0%
1994	7,651	10.4%	128,722	13.2%	2,380,000	8.6%
1995	7,911	3.4%	135,229	5.1%	2,504,900	5.2%
1996	8,122	2.7%	144,281	6.7%	2,648,700	5.7%
1997	8,660	6.6%	151,670	5.1%	2,781,000	5.0%
1998	9,066	4.7%	159,756	5.3%	2,917,900	4.9%
1999	9,943	9.7%	173,524	8.6%	3,162,400	8.4%
2000	11,245	13.1%	190,661	9.9%	3,372,400	6.6%
2001	10,802	-3.9%	188,613	-1.1%	3,475,900	3.1%
2002	11,548	6.9%	194,381	3.1%	3,564,400	2.5%
2003	13,391	16.0%	212,861	9.5%	3,754,800	5.3%
2004(p)	14,302	6.8%	229,174	7.7%	4,029,500	7.3%

Economy.com estimates including Food Services. Estimates based on U.S. Census Bureau Data.

(p)=preliminary

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. From 1988 to 1991 the number of housing permits authorized in Rhode Island declined by 55.3 percent. In 2004, the number of housing permits authorized increased by 3.8 percent in Rhode Island, compared to an increase of 16.7 percent for New England and an increase of 5.6 percent for the United States.

Housing Permits Authorized, 1988 - 2004 (Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1988	5,717	-13.5%	82,768	-18.5%	1,453,000	-5.7%
1989	4,205	-26.4%	54,129	-34.6%	1,351,000	-7.0%
1990	3,177	-24.4%	38,148	-29.5%	1,124,000	-16.8%
1991	2,557	-19.5%	30,396	-20.3%	946,000	-15.8%
1992	2,644	3.4%	37,000	21.7%	1,099,000	16.2%
1993	2,618	-1.0%	39,765	7.5%	1,208,000	9.9%
1994	2,516	-3.9%	39,976	0.5%	1,367,000	13.2%
1995	2,287	-9.1%	37,356	-6.6%	1,337,000	-2.2%
1996	2,363	3.3%	39,984	7.0%	1,420,000	6.2%
1997	2,725	15.3%	42,308	5.8%	1,442,000	1.5%
1998	2,657	-2.5%	47,847	13.1%	1,619,000	12.3%
1999	3,237	21.8%	47,346	-1.0%	1,662,000	2.7%
2000	2,663	-17.7%	43,730	-7.6%	1,600,000	-3.7%
2001	2,412	-9.4%	42,875	-2.0%	1,639,000	2.4%
2002	2,579	6.9%	47,307	10.3%	1,750,000	6.8%
2003	2,456	-4.8%	48,503	2.5%	1,890,000	8.0%
2004	2,549	3.8%	56,583	16.7%	1,996,000	5.6%

U.S. Department of Commerce. Construction Statistics Division
Federal Reserve Bank of Boston

Perhaps the strongest sector of the state's economy has been housing. Significant declines in existing home sales in Rhode Island in 1990 and 1991 (of -13.4 percent and -5.2 percent, respectively) were followed by rapid sales growth for 1992 and 1993, when existing home sales in Rhode Island increased at yearly rates higher than the national average. The current boom in housing in Rhode Island commenced in 1996 and was sustained up to 2000. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 8.2 percent. In 1998 alone, they shot up 19.5 percent. Following this period of rapid growth, existing home sales moderated decreasing by 5.8 percent in 2000, increasing 2.6 percent in 2001 before recording another decrease of 1.5 percent in 2002. In 2002, existing home sales again resumed their upward trend growing by 2.5 percent in 2003 and 8.4 percent in 2004.

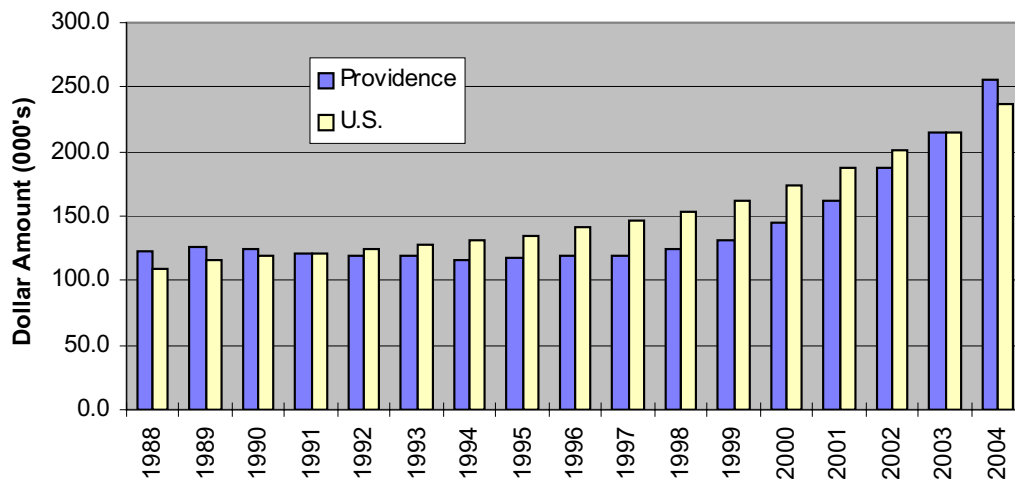
Existing Home Sales, 1988 - 2004
(In Thousands, SAAR)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1988	11.0	4.8%	178.5	2.3%	3,882.5	3.1%
1989	11.2	1.8%	163.0	-8.7%	3,672.0	-5.4%
1990	9.7	-13.4%	134.0	-17.8%	3,603.5	-1.9%
1991	9.2	-5.2%	140.5	4.9%	3,533.3	-1.9%
1992	11.9	29.3%	170.6	21.4%	3,889.5	10.1%
1993	13.0	9.2%	193.8	13.6%	4,220.3	8.5%
1994	13.1	0.8%	200.3	3.4%	4,409.8	4.5%
1995	13.5	3.1%	185.7	-7.3%	4,342.3	-1.5%
1996	14.7	8.9%	200.7	8.1%	4,705.3	8.4%
1997	15.9	8.2%	219.4	9.3%	4,908.8	4.3%
1998	19.0	19.5%	248.3	13.2%	5,585.3	13.8%
1999	20.7	8.9%	253.3	2.0%	5,922.8	6.0%
2000	19.5	-5.8%	242.0	-4.5%	5,831.8	-1.5%
2001	20.0	2.6%	239.6	-1.0%	6,026.3	3.3%
2002	19.7	-1.5%	244.5	2.0%	6,421.3	6.6%
2003	20.2	2.5%	275.6	12.7%	6,994.8	8.9%
2004	21.9	8.4%	269.9	-2.1%	7,593.8	8.6%

National Association of Realtors
Federal Reserve Bank of Boston

On a seasonally adjusted annual rate basis, existing home sales for Rhode Island, New England, and the United States appear in the table above. Note that Rhode Island's housing market has tended to move in-step with the New England housing market, at least until recently. In 2001 and 2002, Rhode Island's housing market moved inversely with that of New England. In 2003, it fell in line once more with the New England housing market but at a less robust level, inverting again in 2004.

Average Annual Home Prices, 1988 - 2004



Fannie Mae and Freddie Mac; Federal Reserve Bank of Boston

Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 112.1 percent of the US average in 1988, by 1999 they had fallen to 80.7 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices

have climbed relative to the U.S. average, attaining parity in 2003 and rising to 107.9 percent of the U.S. average in 2004.

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of \$554 million, defense related contracts declined 29.6 percent by 1993 to \$390 million. By 1994, the value of defense related contracts had rebounded to \$422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the “peace dividend” from the end of the Cold War. In 2003 contracts had risen again to \$489 million, up 34.0 percent from the previous year. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2004. Since 1990, Rhode Island’s share of New England contract awards has decreased from 3.9 percent to 2.8 percent of such awards in 2003.

Department of Defense Contract Awards, 1990 – 2003
(In Millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	489	17,544	191,222	2.8%	0.3%

Department of Defense

Travel and Tourism

According to the May 2004 Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, travel and tourism revenue broke the four billion-dollar mark, at \$4.6 billion in 2003. This generated 57,800 jobs (9.8 percent of the State total) and \$1.1 billion in employee compensation (4.7 percent of the State total).

In 2003 an estimated 16 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.6 million spent the day in the State. Of these 10.6 million visitors, 5.4 million stayed overnight. An additional 23 million travelers “passed through” the state en route to other destinations.

The highest daily expenditures in 2003 were by overnight convention visitors (\$226.61 per day), overnight business visitors (\$224.55 per day), and leisure visitors who stayed in hotels and motels (\$153.52).

Visitor indicators for 2003 were down, with one exception. The Newport Bridge Traffic was up 1.8 percent. Lodgings Tax revenues decreased by 2.8 percent. Visits to the Preservation Society of Newport County were down 8.5 percent, commercial air passengers arriving and departing through T.F. Green Airport were down 4.0 percent and the I-95 Welcome Center Visitors declined by 8.5 percent.

Sales revenues in the travel and tourism industry increased by 2.0 percent in 2003. The transportation sector had the largest percentage increase in 2003 with a 3.6 percent increase in sales revenues. The retail trade sector receipts increased by 1.9 percent and the services sector receipts increased by 1.0 percent. The equivalent number of firms in the tourism industry grew by 0.6 percent in 2003, while wages increased by 1.7 percent and the number of employees increased by 0.2 percent.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990–1991 to a high of 130.5 percent in 1999–2000. For the 2001–2002 academic year Rhode Island spent 27.7 percent more on public elementary and secondary education than the United States average: \$10,552 per student compared to a national average of \$8,261 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year.

Per Pupil Expenditure in Public Elementary and Secondary Schools
Academic Years 1989-90 – 2001-02
 (Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (RI./U.S.)
1989-90	\$6,368	\$4,980	127.9%
1990-91	6,343	5,258	120.6%
1991-92	6,546	5,421	120.8%
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,261	127.7%

U.S. Department of Education, National Center for Education Statistics

For the 2001-02 academic year, Rhode Island per pupil expenditures was the sixth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure Per Pupil in Public Elementary and Secondary Schools
Academic Year 2001-02
 (Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	14,557	26	Hawaii	7,919
2	New York	12,343	27	Georgia	7,870
3	New Jersey	12,197	28	Montana	7,861
4	Connecticut	11,022	29	Iowa	7,714
5	Massachusetts	10,808	30	Missouri	7,699
6	Rhode Island	10,552	31	Washington	7,626
7	Alaska	10,419	32	South Carolina	7,549
8	Vermont	10,229	33	Kentucky	7,536
9	Delaware	9,959	34	California	7,439
10	Maine	9,517	35	Texas	7,302
11	Michigan	9,428	36	Colorado	7,284
12	Wyoming	9,321	37	North Dakota	7,112
13	Maryland	9,266	38	Louisiana	7,061
14	Wisconsin	9,237	39	North Carolina	6,976
15	Pennsylvania	9,196	40	South Dakota	6,890
16	Illinois	8,967	41	New Mexico	6,886
17	Ohio	8,928	42	Florida	6,679
18	Oregon	8,725	43	Arkansas	6,676
19	West Virginia	8,451	44	Oklahoma	6,672
20	Kansas	8,342	45	Arizona	6,594
21	Indiana	8,268	46	Tennessee	6,489
22	Nebraska	8,238	47	Nevada	6,477
23	New Hampshire	8,230	48	Idaho	6,391
24	Minnesota	8,050	49	Alabama	6,327
25	Virginia	7,928	50	Mississippi	5,719
			51	Utah	5,294

U.S. Department of Education, National Center for Education Statistics

According to the June 2003 report by the Rhode Island Office of Higher Education, in fall 2002, the total enrollment in Rhode Island institutions of higher education was 77,417 students, up from the 77,008 students reported in fall 2001. Enrollment decreased 0.7 percent in the public sector (-282 students) and increased in the independent sector (+691 students).

From July 1, 2003 to June 30, 2004, Rhode Island institutions of higher education conferred 16,778 degrees and certificates, an increase of 5.3 percent over the 15,937 awards of the previous year. In 2003-2004 public institutions of higher education conferred 5,567 or 33.2 percent of all awards, while independent institutions awarded 11,211 or 66.8 percent.

APPENDIX B - Proposed Form of Legal Opinion

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November __, 2005

State of Rhode Island and Providence Plantations
State House
Providence, Rhode Island

Re: \$93,385,000 State of Rhode Island and Providence Plantations
General Obligation Bonds, Consolidated Capital Development
Loan of 2005, Series E (the "Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Bonds, representing various loans authorized by various acts of the General Assembly of the State and consolidated for issuance pursuant to Section 35-8-21 of the General Laws of the State. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the General Treasurer including Approval of Governor and Acknowledgment of Approval by the Secretary of State adopted November __, 2005 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Bonds are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Bonds as the same shall come due.

2. The interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will,

however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this paragraph of the opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

We call your attention to the fact that interest on the Bonds may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Bond proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Bonds to become includible in gross income.

3. The Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

HOLLAND & KNIGHT LLP

APPENDIX C - Table of Loan Amortization Schedules

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Appendix C

Table of Loan Amortization

<u>Maturity</u>	Clean Water Environmental Trust Fund Bonds of 1986, <u>Series N</u>	Open Space and Recreational Area Bonds of 1987, <u>Series L</u>	State Capital Development Loan of 1990, <u>Series O</u>	State Capital Development Loan of 1998, <u>Series I</u>	State Capital Development Loan of 2000, <u>Series E</u>	State Capital Development Loan of 2002, <u>Series C</u>	State Capital Development Loan of 2004, <u>Series B</u>	<u>Total Issue</u>
November 1,								
2006	\$ 25,000	\$ 5,000	\$ 130,000	\$ 55,000	\$ 195,000	\$ 50,000	\$ 2,400,000	\$ 2,860,000
2007	30,000	5,000	135,000	55,000	205,000	50,000	2,490,000	2,970,000
2008	30,000	5,000	145,000	60,000	215,000	55,000	2,585,000	3,095,000
2009	30,000	5,000	150,000	60,000	230,000	55,000	2,710,000	3,240,000
2010	30,000	5,000	160,000	65,000	240,000	60,000	2,840,000	3,400,000
2011	35,000	5,000	165,000	65,000	250,000	65,000	2,985,000	3,570,000
2012	35,000	5,000	175,000	70,000	265,000	65,000	3,140,000	3,755,000
2013	35,000	5,000	185,000	75,000	275,000	70,000	3,300,000	3,945,000
2014	40,000	10,000	190,000	80,000	290,000	75,000	3,465,000	4,150,000
2015	40,000	10,000	200,000	80,000	305,000	75,000	3,655,000	4,365,000
2016	45,000	10,000	210,000	85,000	320,000	80,000	3,835,000	4,585,000
2017	45,000	10,000	220,000	90,000	335,000	85,000	4,035,000	4,820,000
2018	50,000	10,000	235,000	95,000	355,000	90,000	4,235,000	5,070,000
2019	50,000	10,000	245,000	100,000	370,000	95,000	4,460,000	5,330,000
2020	55,000	10,000	255,000	105,000	390,000	95,000	4,690,000	5,600,000
2021	55,000	10,000	270,000	110,000	410,000	100,000	4,935,000	5,890,000
2022	60,000	10,000	285,000	115,000	430,000	105,000	5,185,000	6,190,000
2023	60,000	10,000	300,000	120,000	450,000	115,000	5,455,000	6,510,000
2024	65,000	10,000	310,000	130,000	475,000	120,000	5,735,000	6,845,000
2025	65,000	15,000	330,000	135,000	495,000	125,000	6,030,000	7,195,000
	<u>\$ 880,000</u>	<u>\$ 165,000</u>	<u>\$ 4,295,000</u>	<u>\$ 1,750,000</u>	<u>\$ 6,500,000</u>	<u>\$ 1,630,000</u>	<u>\$ 78,165,000</u>	<u>\$ 93,385,000</u>

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APPENDIX D - THE BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

STD-R-7
01/05

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