NEW ISSUE/BOOK ENTRY-ONLY

Ratings: Moody's Investors Services, Inc.: "Aa2"
Standard & Poor's: "AA"
Fitch: "AA"
See "RATINGS" herein

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the $81,400,000 State of Rhode Island General Obligation Bonds Consolidated Capital Development Loan of 2012, Series B (the "Bonds") is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is free from personal income taxation by the State of Rhode Island (the "State") or any political subdivision or other instrumentality of the State, although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Bonds. See "TAX STATUS" and APPENDIX B — "Proposed Form of Legal Opinion" herein.

$81,400,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2012, Series B

Dated: Date of Delivery

Due: As shown on the inside cover page

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 U.S. Bank National Association, as Paying Agent. Interest on the Bonds will be payable on April 15, 2013 and semiannually thereafter on April 15 and October 15 of each year. 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 optional redemption prior to maturity as described herein.

The Bonds are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions, Certain legal matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Taft & McSally LLP, Cranston, Rhode Island. Delivery of the Bonds to DTC is expected in New York, New York on or about October 24, 2012.

Barclays Capital **J.P. Morgan**

BofA Merrill Lynch **Citigroup** **Goldman, Sachs & Co.**

Fidelity Capital Markets **Roosevelt & Cross, Incorporated**

October 10, 2012

Maturity Schedule
Maturities, Amounts, Interest Rates, Yields and CUSIPs

$81,400,000 Consolidated Capital Development Loan of 2012, Series B

Maturity Date	Amount	Rate	Yield	CUSIPs[†]
10/15/2013	2,770,000	2.000%	0.300%	76222RLZ3
10/15/2014	2,845,000	3.000%	0.460%	76222RMA7
10/15/2015	2,930,000	3.000%	0.630%	76222RMB5
10/15/2016	3,025,000	3.500%	0.810%	76222RMC3
10/15/2017	3,140,000	4.000%	0.980%	76222RMD1
10/15/2018	3,270,000	4.000%	1.220%	76222RME9
10/15/2019	3,405,000	4.000%	1.480%	76222RMF6
10/15/2020	3,545,000	4.000%	1.750%	76222RMG4
10/15/2021	3,685,000	4.000%	1.980%	76222RMH2
10/15/2022	3,840,000	4.000%	2.210%	76222RMJ8
10/15/2023	3,995,000	4.000%	2.390%*	76222RMK5
10/15/2024	4,155,000	4.000%	2.560%*	76222RML3
10/15/2025	4,325,000	4.000%	2.680%*	76222RMM1
10/15/2026	4,505,000	4.000%	2.800%*	76222RMN9
10/15/2027	4,710,000	5.000%	2.670%*	76222RMP4
10/15/2028	4,955,000	5.000%	2.700%*	76222RMQ2
10/15/2029	5,205,000	5.000%	2.760%*	76222RMR0
10/15/2030	5,475,000	5.000%	2.820%*	76222RMS8
10/15/2031	5,705,000	3.250%	3.350%	76222RMT6
10/15/2032	5,915,000	4.000%	3.250%*	76222RMU3

† The CUSIP numbers above 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, the Financial Advisor 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.

* Priced to the first optional call date of October 15, 2022 at a redemption price of 100%.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters of the Bonds in connection with the offering contained herein, 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 the State or the Underwriters. 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 any of the foregoing. 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.

The Underwriters intend to offer the Bonds to the public initially at the offering prices or yields shown on the cover page hereof, which prices or yields may change subsequently without any requirement or prior notice. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices shown on the cover hereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The Bonds will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy of this Official Statement or, except for the State, approved the Bonds for sale. Any representation to the contrary may be a criminal offense.

The information relating to The Depository Trust Company ("DTC") and the book-entry only system contained in this Official Statement have been furnished by DTC (see "DESCRIPTION OF THE BONDS — Book-Entry-Only System" herein). No representation is made by the State as to the adequacy or accuracy of such information. The State has not made any independent investigation of DTC or the book-entry only system.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. 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 parties referred to above or that the other information or opinions are correct as of any time subsequent to the date hereof.

FirstSouthwest, the 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

TABLE OF CONTENTS

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

Governor ....Lincoln D. Chafee
Lieutenant Governor ....Elizabeth H. Roberts
General Treasurer..Gina M. Raimondo
Attorney General...Peter F. Kilmartin
Secretary of State ....A. Ralph Mollis

APPOINTED OFFICIALS

Director of Administration.............................Richard A. Licht
Budget Officer ....Thomas A. Mullaney
State Controller ....Marc A. Leonetti
Auditor General ....Dennis E. Hoyle

BOND COUNSEL

Hinckley, Allen & Snyder LLP, Providence, Rhode Island

DISCLOSURE COUNSEL

Adler Pollock & Sheehan P.C., Providence, Rhode Island

FINANCIAL ADVISOR

FirstSouthwest, Lincoln, Rhode Island

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

$81,400,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2012, Series B

INTRODUCTION

The purpose of this Official Statement, including the front and inside cover pages 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 $81,400,000 General Obligation Bonds Consolidated Capital Development Loan of 2012, Series B (the "Bonds"), dated the date of delivery. The proceeds of the Bonds will be used to finance certain authorized capital projects of the State.

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 for the Bonds

Sources

Par Amount of Bonds	$81,400,000.00
Net Original Issue Premium	10,410,383.50
Total Sources	$91,810,383.50

Uses

Deposit to Bond Capital Fund[1]	$81,400,000.00
Deposit to Rhode Island Capital Plan Fund	9,992,889.50
Underwriters' Discount	417,494.00
Total Uses	$91,810,383.50

[1] Includes legal, printing, financial advisor and other costs

DESCRIPTION OF THE STATE

See APPENDIX A -- "Information Statement of the State of Rhode Island and Providence Plantations", dated October 1, 2012 for a description of the State, its budgetary process and financial profile. The Securities and Exchange Commission (the "SEC") has opened a non-public formal investigation into the disclosures by the State regarding the State Employees' Retirement System. The State is fully cooperating with the investigation. See APPENDIX A — "Information Statement of the State of Rhode Island and Providence Plantations" dated October 1, 2012. On November 17, 2011, the State General Assembly adopted "The Rhode Island Retirement Security Act" (the "Retirement Security Act") which restructures the State-run retirement systems. See the section entitled "State Retirement Systems" in APPENDIX A — "Information Statement of the State of Rhode Island and Providence Plantations" dated October 1, 2012.

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 2012, Series B.

The Bonds will be dated the date of delivery and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Bonds will be payable on April 15, 2013 and semi-annually thereafter on April 15 and October 15 of each year. 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 (as defined herein) 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 as set forth on the inside cover page hereof.

Redemption

Optional Redemption of the Bonds. The Bonds maturing on and before October 15, 2022 are not subject to optional redemption prior to their stated dates of maturity. The Bonds maturing on and after October 15, 2023 are subject to optional redemption prior to their stated dates of maturity on and after October 15, 2022 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 the Bonds and 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 of the same Series, 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 under this heading has been furnished by DTC, New York, New York. Neither the State nor the Underwriters make any representations as to the completeness or the accuracy of such information or as to the absence of 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 will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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 and www.dtc.org.

Purchases of the 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 ("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 or 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 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. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State or the Paying Agent 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 and interest payments and redemption proceeds 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 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 nor its nominee, the State or Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 UNDERWRITERS AND THE PAYING AGENT 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 BOND OWNERS OR

REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Neither the State, the Underwriters, 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 the Bonds will be the close of business of the fifteenth day prior to the date on which an interest payment is due, or if such day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

Components by Authorization and Purpose for the Bonds

The Bonds are composed of four (4) separate loans. 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 the Bonds:

Amount	Loan
$ 8,600,000	State Capital Development Loan of 2004, Series I
800,000	State Capital Development Loan of 2006, Series H
1,000,000	State Capital Development Loan of 2008, Series C
71,000,000	State Capital Development Loan of 2010, Series B
$81,400,000	

Plan of Finance

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

Amount	Purpose	Statute	Referendum
$ 3,500,000	Emergency Water Interconnect	Chapter 595 of the P.L. of 2004	November 2, 2004
5,100,000	Open Space, Recreation, Bay and Watershed Protection	Chapter 595 of the P.L. of 2004	November 2, 2004
800,000	Roger Williams Park Zoo	Chapter 246 of the P.L. of 2006	November 7, 2006
1,000,000	Open Space & Recreational Development	Chapter 378/469 of the P.L. of 2008	November 4, 2008
24,500,000	Transportation	Chapter 23 of the P.L. of 2010	November 2, 2010
46,500,000	Higher Educational Facilities	Chapter 23 of the P.L. of 2010	November 2, 2010
$81,400,000			

Authorized But Unissued Direct General Obligation Debt

The following table sets forth the amounts, purposes and statutory authorization of authorized but unissued general obligation direct debt of the State after the issuance of the Bonds which authorizations have been approved by referenda of the electors.

Purpose	Statutory Authorization	Authorized but Unissued Debt Prior to Issuance of the Bonds	Bonds Described Herein	Authorization after Issuance. of the Bonds
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	$ 1,200,000	$ 0	$ 1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	4,500,000	3,500,000	1,000,000
Open Space, Recreation, Bay and Watershed Protection	Ch. 595-P.L. of 2004	6,800,000	5,100,000	1,700,000
Transportation	Ch. 246-P.L. of 2006	2,195	0	2,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	800,000	800,000	0
Environmental Management	Ch. 246-P.L. of 2006	1,000,000	0	1,000,000
Transportation	Ch. 100-P.L. of 2008	500,000	0	500,000
Open Space & Recreational Development	Ch. 378/469-P.L. of 2008	1,000,000	1,000,000	0
Higher Education Facilities	Ch. 23-P.L. of 2010	56,500,000	46,500,000	10,000,000
Transportation	Ch. 23-P.L. of 2010	44,650,000	24,500,000	20,150,000
		$116,952,195	$81,400,000	$35,552,195

RATINGS

The Bonds have been assigned ratings by Moody's Investors Service ("Moody's"), Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard and Poor's") and Fitch Ratings ("Fitch") (collectively, the "Rating Agencies"). The ratings assigned by Moody's, Standard and Poor's and Fitch are "Aa2", "AA" and "AA", respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained from the rating agency furnishing the same. There is no assurance that the ratings given the Bonds by the Rating Agencies will be maintained for any given period of time or that they may not be revised downward or withdrawn entirely. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The legality of the Bonds will be approved by Hinckley, Allen & Snyder 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 Adler Pollock & Sheehan P.C., Providence, Rhode Island, as Disclosure Counsel. Certain matters will he passed upon for the Underwriters by their counsel, Taft & McSally LLP, Cranston, Rhode Island.

TAX STATUS

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is free from taxation by the State or any political subdivision or other instrumentality of the State, although the Bonds and the income therefrom may be included in the measure of certain Rhode Island corporate and business taxes. Bond Counsel has not opined as to other Rhode Island tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds may be included in the measure of Rhode Island estate taxes, and the Bonds and the interest thereon may be included in the measure of certain Rhode Island corporate and business taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Rhode Island. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Rhode Island income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Rhode Island income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Rhode Island income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

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. It should be noted, however, that there is pension litigation pending that challenges certain of the pension reforms of the State. In particular, in June 2012 certain retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of the State Employees' Retirement System commenced five separate lawsuits in State court challenging the Retirement Security Act. As a result of the Retirement Security Act, the unfunded liability of $6.8 billion for State employees and teachers in the June 30, 2010 actuarial valuation for the State Employees' Retirement System has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actuarial valuation to $380 million as reported in the June 30, 2011 valuation. An adverse judgment against the State in such pension litigation could impact all or some of such reductions achieved by the Retirement Security Act. Depending upon the extent to which an adverse judgment impacts the reductions in unfunded liability and employer contributions that have been achieved by the Retirement Security Act, an adverse judgment under such pension litigation could affect materially the State's financial position. For a discussion regarding such pension litigation, as well as certain pension litigation challenging the 2009 and 2010 pension reform and other pending litigation where the potential exposure for which is greater than $5,000,000, see the section entitled "Litigation" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 1, 2012. For a discussion regarding the status of the State Employees' Retirement System and the significance of unfunded liability and employer contributions with respect to the State Employees' Retirement System, see the section entitled "State Retirement System" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 1, 2012.

FINANCIAL ADVISOR

The State has retained FirstSouthwest (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Bonds. The Financial Advisor has not independently verified any of the information contained in this Official Statement and makes no guarantee as to its completeness or accuracy. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds, and receipt by the State of payment therefor. The State may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of Bond proceeds.

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 shall 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, through the State Budget Office, will undertake in a written agreement ("Continuing Disclosure Certificate") for the benefit of the owners of the Bonds to provide in electronic format to the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board ("MSRB"), as the sole repository for the central filing of electronic disclosure pursuant to the Rule, the following information.

The State shall provide (a) not later than the end of each calendar year, commencing with December 31, 2013, 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 any 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 subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule. The State shall provide, in a timely manner, to the MSRB, notice of a failure to satisfy the requirements of this paragraph.

The State shall provide or cause to be provided, within ten (10) business days after the occurrence thereof, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults, if material;

(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, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(g) Modifications to the rights of beneficial owners of the Bonds, if material;

(h) Bond calls, if material;

(i) tender offers;

(j) Defeasances;

(k) The release, substitution, or sale of property securing repayment of the Bonds, if material;

(l) Rating changes;

(m) Bankruptcy, insolvency, receivership or similar event of the State[*];

(n) The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to

[*] As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.

undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(o) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(It should be noted, however, as of the date of this Official Statement, events of the types listed in clauses (b), (c), (d), (e), (i), (k) and (o) are not applicable to the Bonds)

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 event except those listed above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any beneficial owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof 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 any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the beneficial owners of the Bonds, (d) to modify the content, 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 any applicable state legislation responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (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 change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined either by a party unaffiliated with the State (such as special counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers such as the State to provide all or any portion of the information the State has agreed to provide pursuant to this Continuing Disclosure Certificate with respect to securities such as the Bonds, the obligation of the State to provide such information also shall cease immediately.

The purpose of the State's undertaking in the Continuing Disclosure Certificate is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the Bonds, from time to time, to specifically enforce the State's obligations under the Continuing Disclosure Certificate, 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 provision of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations under the Continuing Disclosure Certificate 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 below, the State has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule for the past five years. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the State relating solely to the bonds of the Rhode Island Refunding Bond Authority. The State is no longer subject to these undertakings as no bonds issued by the Rhode Island Refunding Bond Authority are currently outstanding. The Rhode Island Refunding Bond Authority made final payment on its outstanding bonds in fiscal year 2010.

The State has been filing from time to time notices regarding changes in the financial strength ratings issued by the Rating Agencies during the period from 2008 through 2010 for those national bond insurers who have provided bond insurance on certain bonds and lease participation certificates for which the State has a continuing disclosure obligation under the Rule. While the State believes it has complied in all material respects with its obligations to file notices of material rating changes with respect to such rating changes, it cannot rule out the possibility that determinations made by the State might be open to interpretation as to whether certain rating changes in connection with such bond insurers were material or not material or what constituted ‘timely’ filing. The State has instituted policies and procedures designed to ensure compliance with the new reporting obligations under the Rule that were effective as of December 1, 2010, that now require filing notices of rating changes in connection with new bond issues within 10 business days of such occurrence regardless of materiality. The State plans to regularly review the effectiveness of its policies and procedures and take prompt action to remedy any deficiencies of which it becomes aware.

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 Thomas A. Mullaney, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02908, Telephone (401) 222-6300.

UNDERWRITING

The Bonds are being purchased by Barclays Capital, as representative of the Underwriters shown on the cover page hereof (the “Underwriters”). The aggregate offering price of the Bonds to the public is $91,810,383.50 and the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the State at a purchase price of $91,392,889.50.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Citigroup Inc., parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Bonds.

The Underwriters have further agreed, subject to certain conditions, to reoffer the Bonds at no greater than the initial public offering prices stated on the inside cover page hereof. The bond purchase agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase agreement.

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 1, 2012, and the Basic Financial Statements of the State, as of and for the year ended June 30, 2011, 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 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/ Gina M. Raimondo
General Treasurer

By: /s/ Richard A. Licht
Director of Administration

Dated: October 10, 2012

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: October 1, 2012

Appendix A
Table of Contents

Page

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, automobile excise taxes, and state aid for provision of revenue.

Since 1985, cities and towns had 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 authorized 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 city or town increased 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 included authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arose and was certified by the State Auditor General. In such an emergency situation, the levy in excess of a 5 ½ percent increase had to 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 obligation 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.

During the 2006 session of the General Assembly, significant amendments to 44-5-2 were enacted. The amendments progressively reduce the maximum property tax levy from a 5.5% increase over the prior year levy to 4.0% in the year 2013 and thereafter, while expanding and clarifying exemptions from the property tax cap. Limitations on the tax rate were removed. The previous property tax limitation applied a 5.5% cap on the tax rate or the levy. In those municipalities where a city or town council has final tax levy approval, a four-fifths vote would be required to exceed the applicable cap. In the case of a city or town having a financial town meeting, the majority of the electors present and voting at the town financial meeting shall also approve the excess levy. The act also capped the amount of funds requested by a school committee of a city or town at the same rate of increase as the maximum tax levy increase. The act also broadened the definition of State mandates on municipalities and restricted the flexibility of the Governor or Legislature to forego reimbursement of State mandates.

Status of Pension and OPEB Plans Administered by Municipalities

The Office of the Auditor General completed an initial review in 2007 of the fiscal health of the various locally-administered defined benefit pension plans covering Rhode Island municipal employees. Updated reviews have been completed in March 2010 and September 2011, which also included an assessment of the status of other post-employment benefit plans offered by municipalities. Twenty-four communities have created 36 pension plans, which they administer for their employees. The State Auditor General considered 24 locally administered pension plans to be at risk, twelve were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. The collective funded ratio of the plans decreased from 43 percent, as reported in March 2010, to 40 percent, as reported in the September 2011 update. Total assets collectively held by these 36 pension plans were $1.4 billion (as reported in their fiscal 2010 audit reports or more current valuations when available). The collective unfunded actuarial liability for future benefits under these locally-administered plans was approximately $2.1 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements or more current valuations when available).

The Office of the Auditor General's September 2011 report further summarized the status of other post-employment benefit (OPEB) plans administered by municipalities for their employees. The actuarial value of assets held by these plans was $27.5 million and the collective unfunded actuarial accrued liability for future benefits was nearly $3.5 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements). The collective funded ratio of the locally-administered OPEB plans was less than 1%. The State Auditor General made a number of recommendations to improve the funded status of the locally-administered pension and Other Post Employment Benefits (OPEB) plans.

In November 2011, the General Assembly enacted reforms to state pensions through passage of the Retirement Security Act of 2011, and provided for a Study Commission (the "Commission"), chaired by the Director of Revenue, to be established to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered plans and other post-retirement benefit obligations of cities and towns. The commission consists of fourteen (14) members, and began meeting on January 25, 2012. In accordance with the act, Rhode Island municipalities with locally administered plans were required to submit an Actuarial Experience Study and Actuarial Valuation Study to the Commission by April 1, 2012. Documents submitted by the municipalities are under review by the Department of Revenue and the Office of the Auditor General. Municipalities whose pension plans are deemed to be in "critical" status (below 60% funded) must notify the plans' participants & beneficiaries, the General Assembly, the Department of Revenue, the Auditor General and the General Treasurer within 30 days following that certification. In addition, municipalities with plans in critical status are required, within 180 days of receiving critical status notice, which means no later than November 11, 2012, to submit to the Commission a reasonable alternative funding improvement plan to emerge from critical status. The Commission developed guidelines to assist municipalities whose locally-administered pension plans are deemed to be in critical status and is providing support to municipalities. Based on the reports filed with the Office of Municipal Finance, there are twenty-two (22) plans that fall into the critical status category.

State Oversight for Municipal Fiscal Stability

In June 2010, the General Assembly enacted "An Act Providing for the Financial Stability of Cities and Towns" ("Fiscal Stability Act") to provide a mechanism for the State to work with cities and towns undergoing financial distress that threatens the fiscal well-being, public safety and welfare of such cities and towns, or other cities and towns or the State, and to provide stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress.

The Fiscal Stability Act was a response to a display of fiscal weakness in several communities, including the filing of a petition for judicial receivership by the City of Central Falls in the Rhode Island Superior Court on May 18, 2010. Under the Fiscal Stability Act, Central Falls moved from having a judicially-appointed receiver to a state appointed receiver (the "State Receiver"). Under the State Receiver appointed by the Director of Revenue under the Fiscal Stability Act, Central Falls filed for federal bankruptcy protection on August 1, 2011, (see 'Central Falls Bankruptcy' below). The State has a compelling interest in the fiscal health of Rhode Island municipalities. The Fiscal Stability Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support for and control over municipalities depending on the particular financial circumstances. The Fiscal Stability Act repeals Chapter 45-9 relating to Budget Commissions in its entirety and creates three levels of State oversight and control. The three levels are: fiscal overseer, budget commission and state receiver. If the Director of Revenue determines in consultation with the Auditor General that a city or town is facing a fiscal emergency and that circumstances do not allow for the appointment of a fiscal overseer or a budget commission, the Director of Revenue may appoint a receiver without first having appointed a fiscal overseer or budget commission. The Fiscal Stability Act also prohibits municipalities from filing for or being placed into, either voluntarily or involuntarily, judicial receivership and clarifies that the Superior Court has only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the Director of Revenue and to take such further actions as may be necessary to ensure an orderly transition. When the Director of Revenue abolishes a fiscal overseer, budget commission or receiver of a city or town as the case may be after determining in writing that the city or town's fiscal stability has improved to a level that said fiscal overseer, budget commission or a receiver is no longer needed, the city or town must create and maintain for a period of five (5) years a department of administration and finance which shall be responsible for the overall budgetary and financial administration of the city and town. The division of municipal finance must submit a list of three (3) names to the chief executive officer of the city or town who must appoint one of those individuals for a period of not more than five (5) years as the officer who shall be responsible for the department of administration and finance. The appointment and removal of said officer must be approved in writing by the division of municipal finance. The Fiscal Stability Act applied retroactively to May 15, 2010.

Bills were introduced during the 2011 legislative session at the request of the Department of Revenue to address issues in connection with the Fiscal Stability Act that have arisen during the course of the Central Falls receivership. Two of those bills enacted as Chapter 277 of the Public Laws of 2011 and its companion Chapter 269 of the Public Laws of 2011 amended two sections of current law (R.I. Gen. Laws §45-12-1 and R.I. Gen. Laws §45-12-22.4) to (i) provide for a pledge of general fund revenues of cities and towns to the payment of general obligation debt and, to the extent appropriations have been made, lease appropriation debt of cites and towns; (ii) make any municipal or district employee or official who intentionally violates the law personally liable to the city, town or district for amounts not expended in accordance with such appropriations and make said employee or official subject to removal; and (iii) prohibit a municipality from issuing pension and Other Post-Employment Benefits (OPEB) debt without approval of the State Auditor General and Director of the Department of Revenue. The purpose of the bills is to enhance capital market access for cities, towns and districts. Both bills were passed by the General Assembly and were enacted into law. The bills took effect upon passage and apply to general obligation bonds and other financing obligations issued by cities, towns and districts including those issued prior to the date of enactment.

Two other bills, enacted as Chapter 279 of the Public Laws of 2011 and its companion Chapter 304 of the Public Laws of 2011 "clean up" some provisions of the Fiscal Stability Act which was passed during the 2010 legislative session, and (i) clarify that the receiver – as well as budget commissions – is entitled to exercise all power that elected officials may exercise under applicable laws; (ii) prohibit expenditures by elected officials in excess of appropriations and provide that any elected official who intentionally violates that provision will be personally liable for those expenditures; (iii) clarify that powers of the city or town council exercisable by resolution or ordinance will be exercised by order of the receiver; (iv) provide that the state shall indemnify fiscal overseers, budget commission members and receivers arising out of actions taken by them except in instances of malfeasance or gross negligence and provide that said individuals will not be subject to any civil liability for any actions taken or omitted in the course of performing their official duties and that they shall not be subject to prosecution or have any liability for misdemeanor violations of criminal laws for actions taken or omitted in the course of performing official duties under chapter 45-9; (v) provide that any person who violates the law or ignores a written demand made by a fiscal overseer, budget and review commission, receiver or administration and finance officer would be required to pay the reasonable attorney fees incurred to seek enforcement or compliance with the written demand; and (vi) clarify that the law would not pre-empt or restrict the powers and remedies available to a state-appointed receiver under Chapter 9 of Title 11 of the United States Code and the receiver's ability to exercise such powers and remedies on a municipality's behalf in such a federal proceeding.

Central Falls Bankruptcy

In June 2011, the City of Central Falls (the "City") adopted a budget of $21.6 million for FY 2012. Subsequently, the City was estimated to have a structural deficit of $6.1 million for FY 2012. The adopted State FY 2012 budget included no appropriation to Central Falls to enable the City to close its cumulative deficits and its estimated FY 2012 deficit. As of June 2010, the City had approximately $79 million in unfunded pension and health insurance liabilities. As a part of his efforts to balance the budget and resolve the deficit, the State Receiver sought major concessions from retirees and union groups, proposing to cut approximately $2.5 million from the budget through cuts to pensions and payments for retiree health care benefits, as well as other cuts. The concessions were not achieved, and as a result the State Receiver filed for federal Chapter 9 bankruptcy protection for the City on August 1, 2011.

On September 22, 2011, the City filed a plan of debt adjustment with the Bankruptcy Court. The plan of debt adjustment provided for balanced budgets for Fiscal Years 2012-2016. After September 22, 2011, the City reached new collective bargaining agreements with (1) the Central Falls Police Department, Fraternal Order of Police, Central Falls Lodge No. 2, (2) the International Association of Fire Fighters, Local 1485, AFL-CIO, and (3) the Rhode Island Council 94, American Federation of State, County and Municipal Employees AFL-CIO, Local 1627.

The City also reached a settlement with the retirees which provided for permanent cuts in their pensions of up to 55%. The agreement required the Director of Revenue to seek legislation from the General Assembly granting a $2.6 million appropriation to be disbursed by the City over a period of five years such that the combined supplemental transition payment and the reduced retirees' pensions would result in a reduction of no more than 25%. The General Assembly passed 2012-H 7323 Substitute A, as amended (FY 2013 Budget Bill) and Governor Lincoln Chafee signed it into law on June 15, 2012. Article 22 of the Budget Bill provided for the $2.6 million dollar appropriation.

One important issue in the Bankruptcy Court was whether the Central Falls School Department was a department of the City. On March 23, 2012 the Bankruptcy Court determined that the Central Falls School District is not part of the City of Central Falls.

The above-referenced plan of debt adjustment filed with Bankruptcy Court on September 22, 2011 did not account for the subsequently-agreed upon collective bargaining agreements with the three (3) municipal unions and the settlement agreement with the retirees. On June 15, 2012, the City filed an amended plan of debt adjustment and then, to respond to concerns expressed by the Bankruptcy Court, filed a Second Amended Plan of Debt Adjustment on July 10, 2012, a Third Amended Plan of Debt Adjustment on July 23, 2012, and a Fourth Amended Plan of Debt Adjustment on July 27, 2012. The Fourth Amended Plan of Debt Adjustment was confirmed by the Bankruptcy Court by confirmation order entered on September 11, 2012. Over 99% of the creditors that voted on the plan, voted to accept the plan. Not a single creditor filed an objection to the plan.

Provided there are no appeals that stay the confirmation order, the Fourth Amended Plan of Debt Adjustment will become effective on October 25, 2012 and will pave the way for the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and imposes a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

East Providence

In November 2011, the Director of Revenue determined, in consultation with the Auditor General, that the City of East Providence was facing fiscal deficits and cash shortfalls of such a magnitude that the appointment of a fiscal overseer under the Fiscal Stability Act was required.

The fiscal overseer concluded that East Providence (1) was unable to present a balanced municipal budget; (2) faced a fiscal crisis that posed an imminent danger to the safety of the citizens of the City and/or their property; and (3) would not achieve fiscal stability without the assistance of a budget commission.

In December 2011, the Director of Revenue established a budget commission under the Fiscal Stability Act thereby placing the finances of East Providence under the jurisdiction of that commission. The Budget Commission has assumed responsibility for all budget and financial matters.

Woonsocket

In April 2012, the Woonsocket City Council passed an ordinance requesting that the Rhode Island General Assembly pass enabling legislation to allow the City to assess and collect a supplemental tax. While the legislation was introduced, the General Assembly did not pass the legislation. Subsequently, in May 2012 the Mayor and City Council made a joint request to the division of Municipal Finance to establish a Budget Commission for the City. That request was approved. On May 29, 2012, the Director of the Department of Revenue, in consultation with the Auditor General, appointed a Budget Commission pursuant to R.I. Gen. Laws 45-9-5 thereby placing the finances of Woonsocket under the jurisdiction of that commission. Since that time the Budget Commission has continued its work in assisting the City with its fiscal challenges.

The Budget Commission has assumed responsibility for all budget and financial matters.

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 spanned ten years and progressively eliminated ten percent of the tax levy each year until it was totally phased-out as of fiscal year 2009. Local communities were to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was to have increased from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. Expanded sharing of State revenue was delayed beginning in FY 2003 and all appropriations for general revenue sharing were eliminated beginning in FY 2010. Despite the reductions in state aid, the local reduction in the levy on inventories continued on the original schedule and the tax has now been eliminated.

The other local property tax levy reduced was the local levy on motor vehicles and trailers. This tax was to 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 was no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and for FY 2009, the first $6,000 in value of a vehicle was exempted from taxation and municipalities were prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities were being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities were being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget enacted by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program was reduced by $18.1 million, approximately 13.4 percent of the enacted FY 2010 budget amount. The statute was amended to require reimbursement to communities equal to 88 percent of the 98 percent current rate of reimbursement. For FY 2011, the Governor proposed, in his recommended

FY 2011 budget, to eliminate all state appropriations to reimburse local governments for the $6,000 exemption, and included permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above. For FY 2011 and thereafter, the General Assembly enacted legislation that mandates a $500 exemption for which the state will reimburse municipalities an amount subject to appropriation. The legislation further allows municipalities to provide an additional exemption; however, that additional exemption will not be subject to reimbursement. The Assembly also removed the provision that restricted municipalities from taxing the difference in the event that the value of a vehicle is higher than the prior fiscal year. It also allowed for rates to be lowered from the then current frozen levels.

The Assembly provided $10.0 million in FY 2011, FY 2012 and in the FY 2013 enacted budget for the Motor Vehicle Excise Tax Reimbursement Program. The Assembly did not provide funding for fire districts beyond FY 2010, but for FY 2011 and thereafter, it restored the authority for fire districts to levy a motor vehicle excise tax.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. In addition, the State makes contributions to the Employee Retirement System of Rhode Island on behalf of local districts and charter schools, which partially relieves them of the cost of funding retirement benefits for teachers.

In June 2010, the General Assembly enacted a funding formula to guide education aid payments beginning July 1, 2011 (FY 2012). The formula redistributes current education aid spending among school districts, state-operated schools, and charter schools. For school districts that receive more money under the new formula, the increase is being phased in over seven years. For school districts that receive less money under the new formula, the decrease is being phased in over ten years. The funding formula aid program disburses funding to communities on the basis of a number of factors including wealth of the community, the average daily number of students in the community's schools, and the number of children in the community's schools who are eligible for free or reduced price meals.

For FY 2013, not including aid to State-operated schools, the State appropriated $714.6 million in education aid to local school districts and charter schools through the funding formula ($745.8 million if you include the State-operated Davies Career and Technical High School, the Metropolitan Career and Technical School, and the Rhode Island School for the Deaf).

In addition to redistributing current aid levels, the formula establishes six categories of funding outside of the core formula amount. These categories are subject to appropriations and may be ratably reduced if demand exceeds the available funding, however they are integral parts of the funding formula and are being funded under a ten-year transition plan. Under these new categories, the state will pay for the costs of setting up and running career and technical education programs, the costs of pre-kindergarten programs, transportation for out-of-district non-public students and students in regionalized school districts, and the amount of the cost of any special education student that is above five times the core education aid amount (meaning the cost for a non-special education student who is eligible for the free and reduced lunch program). Existing permanent bonuses for regionalized school districts will be replaced with temporary bonuses that phase out over two years. Lastly, the State will match funding for the Central Falls School Department from the City of Central Falls as it gradually resumes paying its required local contribution during a transition period of ten years (currently the State pays 100 percent of the local contribution for Central Falls). The State appropriated $7.5 million for these categories in FY 2013.

There are also a handful of aid categories still being funded that pre-date the funding formula. In the FY 2013 budget state general aid support of $8.7 million is provided for internet access, for administering the school breakfast program, for textbooks for non-public schools, and for a payment based on the number of group home beds in each community.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 93 percent of the construction cost of new facilities and renovations. Under current law, the minimum reimbursement percentage is 35 percent for FY 2013 and thereafter. The level for each individual community 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. The definition of reimbursable expenditures includes capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In June 2011, the General Assembly enacted a moratorium on the approval of new projects with the exception of those needed for health and safety issues. This moratorium is scheduled to run through June 30, 2014. The State appropriated $74.6 million for this category in FY 2013. A related program will provide approximately $2.5 million in FY 2013 to cities and towns to provide aid in the construction of libraries.

The final major category of State aid is state funding of teachers' retirement costs. Both the employer and the employee contribute to the costs of the defined benefit plan that covers teachers throughout the state. Starting in FY 2013 there will also be a defined contribution plan which will also feature both employer and employee contributions. For teachers, by Rhode Island law, the employer share is split between the State and the local school district or charter school, with the State paying 40 percent of the employer share and the local district or charter school paying 60 percent. These payments are made directly to the Employees Retirement System of Rhode Island. The only public school teachers who do not participate in this system are those at State-operated schools that are staffed by state employees and those at schools that are exempt from participating: namely Mayoral Academy charter schools and the Metropolitan Career and Technical School. The State appropriated $79.8 million for this category in FY 2013.

Other local aid programs include the motor vehicle excise tax reimbursement (as discussed above), payment-in-lieu of taxes (PILOT) program and distressed communities aid program. The Motor Vehicle Excise Tax Reimbursement Program was funded at $135.6 million in the FY 2010 Enacted Budget. As noted above, however, this was reduced in the final enacted budget to $117.2 million. For FY 2011 and FY 2012, the enacted budget included an appropriation of $10.0 million to local governments for the Motor Vehicle Excise Tax Reimbursement and a reduction of the exemption from $6,000 to $500. The FY 2013 enacted budget also includes $10.0 million in appropriations.

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 higher educational institutions, non-profit or State-owned hospitals, veterans' residential facilities, and correctional facilities. The FY 2013 Enacted Budget included $33.1 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2013 Enacted Budget, to fund allocations to eligible communities. Of these communities, Central Falls was determined to be especially distressed in FY 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls.

As a result of the indices established by Rhode Island General Laws 45-13-12, the following communities would receive funds through the Distressed Communities Relief Fund: Central Falls, Cranston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket.

State library aid provides financial support for local public library services and for the construction and capital improvement of any free public library. A portion of library aid is disbursed directly to local libraries, including private libraries, while other aid is disbursed to the individual cities and towns. Appropriations of $11.5 million are included in the FY 2012 enacted budget, and $11.2 million in the FY 2013 enacted budget.

Rhode Island also distributes to communities 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 $12.7 million for the FY 2013 budget. Also, the State distributes a 1% (one percent) meals and beverage tax, estimated at $20.6 million for FY 2013 according to the proportion of that tax collected in each community. The State also provides funds through the Airport Impact Aid to cities and towns which host airports, and expects to distribute a total of $1.025 million in FY 2013.

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 for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax, as described above. No funding was provided for this program in either the FY 2012 or FY 2013 enacted budgets. This program was last funded in FY 2009 with an appropriation of $25.0 million.

State Budgeting Practices for Municipalities

Governor Chafee's FY 2012 budget proposal included requirements for fiscally prudent budgeting practices for cities and towns by requiring, for example, cities and towns to provide for a Five-Year Budget Forecast and a fiscal impact statement for changes in health care benefits, pension benefits and OPEB. This information would be submitted to the Division of Municipal Finance. These fiscal budgeting practices were included by the General Assembly in the FY 2012 enacted budget.

The five-year forecast to be submitted to the Division of Municipal Finance includes two scenarios: one scenario shows a baseline forecast, the other forecast includes pensions and OPEB funded at 100 percent of the Annually Required Contribution (ARC), separately for the general and unrestricted school funds. The forecast also has to show underlying actuarial assumptions.

The fiscal impact statements to the Division of Municipal Finance have to show changes in health care benefits, pension benefits and OPEB, reflecting the impact on the unfunded liability and ARC, as well as the impact on the Five-Year Forecast. Fiscal impact statements have to show underlying actuarial assumptions and support for underlying assumptions.

Financial data, such as quarterly reports, adopted budget surveys and the Comprehensive Annual Financial Report (CAFR) must be submitted to the Division of Municipal Finance within certain timelines as provided under the statute. In addition, each quarterly report submitted must be signed by the chief executive officer, the chief financial officer, as well as the superintendent of the school district and the chief financial officer for the school district. Furthermore, the report must now be submitted to the city or town council president and the school committee chair. It is encouraged, but not required, to have the council president and school committee chair sign the report as well. Furthermore, RI Gen. Laws §45-12-22.2 has been amended to provide that if a quarterly report projects a year-end deficit, a corrective action plan signed by the chief executive officer and chief financial officer must be submitted to both the Division of Municipal Finance and the Auditor General on or before the last day of the month succeeding the close of the fiscal quarter. RI Gen. Laws §45-12-22.3 has been amended to require each municipality to notify both the Auditor General and the Division of Municipal Finance within 30 days if it is likely that a municipality will incur a deficit. RI Gen. Laws §44-5-22 has been amended to require each municipality to submit their certified tax roll to the Division of Municipal Finance no later than the next succeeding August 15. RI Gen Laws §16-2-9 has been amended to require that, in the event of a budget shortfall, a city or town must submit a corrective action plan to both the Auditor General and the Division of Municipal Finance. Local governments would also be required to join electronic reporting and implement the Municipal Uniform Chart of Accounts (UCOA), within six months of statewide implementation.

In the 2012 legislative session, changes have been made to the quarterly reporting requirements. In the past, quarterly reports also have to be submitted to the Division of Municipal Finance and the Auditor General. Now the school department must submit a quarterly report certifying the status of the budget which must also be submitted to the Commissioner of Education.

Furthermore, if any of the quarterly reports project a year-end deficit, the chief financial officer of the municipality also has to submit a corrective action plan to the Commissioner of Education. In the past these action plans were submitted to the Division of Municipal Finance, and the Auditor General.

Principal Governmental Services

Principal State governmental services are functionally divided into six major areas. They are administered and delivered by fourteen 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, but not limited to, the Department of Administration, the Department of Revenue, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including, but not limited to, the Department of Business Regulation and the Public Utilities Commission. The three major departments in the General Government function are the Department of Administration, the Department of Revenue, 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, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, and labor relations. 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, 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 library aid, 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. In 2006, the Division of Lotteries was transferred to the new Department of Revenue.

The Department of Administration also includes the Office of Energy Resources, which is responsible for coordinating all energy matters. In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide up to one gigawatt per year of renewable energy. The first phase of the project began in late 2010 with preliminary work off of Block Island and actual construction is expected to commence by 2012. It is expected that the development will cost in excess of $5.0 billion to construct, which will all be funded through private investment sources. In August 2010, the Public Utilities Commission approved a Power Purchase Agreement (PPA) relating to the purchase of power from this development. This PPA was challenged in court by certain local businesses and on July 1, 2011 the Supreme Court found insufficient grounds to overturn the contract under which Rhode Island's largest utility will buy power from the five-turbine wind farm that Providence-based Deepwater Wind proposes building in the waters southeast of Block Island.

Department of Revenue. During the 2006 session of the General Assembly, the Department of Revenue was created. The new department incorporates several divisions and units previously assigned to the Department of Administration, including the Division of Taxation, the Registry of Motor Vehicles, Division of State Lottery, and the Office of Municipal Finance. New offices of the Director and Revenue Analysis were also created. As part of the FY 2012 enacted budget, responsibility for programs relating to state aid were also moved into the Department of Revenue.

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 medical assistance for eligible low-income populations by the Executive Office of Health and Human Services, care of the disabled by the Department of Behavioral Healthcare, Developmental Disabilities 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 and social services provided by the Department of Human Services.

The four major departments in the Human Services function include the Department of Human Services; the Department of Children, Youth and Families; the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals; and the Department of Health. These four departments are collectively under the managerial umbrella of the Executive Office of Health and Human Services, a secretariat that serves as a lead policymaking and coordinating agency for the departments under its purview. The Executive Office also functions as the "single state agency" for Medicaid administration in Rhode Island, maintaining full administrative oversight of the state's Medical Assistance (Medicaid) program, which includes the Children's Health Insurance Program (CHIP).

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 assistance and social services. The responsibilities of the Department include supervision of the following programs: child support enforcement, supplemental security income, general public assistance, supplemental nutrition assistance, TANF cash assistance, child care assistance, home energy assistance, elderly transportation, and other services to the elderly. 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 Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (DBHDDH) 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. Behavioral health services help people who have psychiatric disorders and severe mental illness, such as manic depression or schizophrenia. 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. DBHDDH 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.

Department of Health. The Department of Health is responsible for the health of the citizens of the State and as such makes investigations into the causes of disease, the prevalence of epidemics and endemics among the people, the sources of mortality, the effect of localities, employments and other conditions, ascertain the causes and the best means for the prevention and control of diseases or conditions detrimental to the public health.

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 research 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. Board members are appointed by the Governor. 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 public higher education in the State, including a comprehensive capital development program. Board members are appointed by the Governor. 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 (collectively, the "State Colleges"). 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. The Board has had the Rhode Island Health and Educational Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2012 totals $267,236,851.

As part of the FY 2013 budget, the General Assembly enacted legislation that abolishes the Board of Governors for Higher Education and the Board of Regents for Elementary and Secondary Education effective January 1, 2013 and creates a new eleven (11) member Rhode Island Board of Education. This new board will have responsibility over Education in Rhode Island from pre-school through post-secondary education. The legislation also abolishes the Office of Higher Education effective January 1, 2014 and creates an executive committee of education comprised of the three institutions of public higher education and the commissioners of higher education and elementary and secondary 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 Public Safety, Department of Corrections, the Judicial Department, and the Attorney General's Office.

During the 2008 Session of the General Assembly, the Department of Public Safety was created. The following agencies were merged into the new Department of Public Safety: State Police, E-911 Emergency Telephone System, State Fire Marshal, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission. In the 2011 Session of the General Assembly, the Sheriffs were transferred from Department of Administration to Department of Public Safety.

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) includes seven 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 and the Coastal Resources Management Council. Staffing responsibilities for the Water Resources Board were transferred to the Department of Administration as part of the FY 2012 Enacted Budget.

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 Rhode Island’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 fund 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 32 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in the FY 2010 Enacted Budget. In addition, the State charges $0.01 per gallon of motor fuel delivered to an underground storage tank (UST). In 2009, 0.5 cents of the UST fee was dedicated to the Rhode Island Public Transit Authority (RIPTA); prior to 2009, the full 1.0 cent went to the Department of Environmental Management. Motor fuel tax receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of RIPTA and the Department of Human Services. As of FY 2010, the 32 cents per gallon motor fuel tax and the 1.0 cent UST fee are allocated as follows: 19.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 9.75 cents to RIPTA, of which 9.25 cents are from motor fuel tax and 0.5 cent is from the UST fee; 1.0 cent to the Department of Human Services for its Elderly and Disabled Transportation Program, and the remaining 0.5 cent from the UST fee to the Department of Environmental Management’s Underground Storage Tank Replacement 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 recent or 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 Economic Development Corporation, 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. The State completed the GARVEE financings 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. The second series, in the amount of $184,620,000, was issued on March 2, 2006. The third series in the amount of $169,395,000 was issued on April 2, 2009. In July 2011 the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also creates the I-195 Redevelopment District Commission. The seven member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42.0 million to finance the acquisition by the I-195 Redevelopment District Commission of the surplus land. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of its I-195 relocation project and certain activities of the I-195 Redevelopment District Commission. To the extent these resources are not sufficient to complete the projects, other Transportation funds would be made available, which would impact the progress of other contemplated projects.

In order to address possible future reductions in federal highway funding and the State's aging transportation infrastructure, the Governor formed a Blue Ribbon Panel for Transportation Funding in March 2008. The Panel reviewed Rhode Island's aging transportation infrastructure, the projects required to maintain the transportation infrastructure for the next five years, and the available funding or shortfall in funding for such projects in light of the current status of the Federal Highway Trust Fund, and identified possible options for future funding.

The Blue Ribbon Panel for Transportation Funding released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair but that state and federal funding only provides approximately $338.9 million in FY 2012. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited. The Department of Transportation submitted an application to the Federal Highway Administration requesting to be permitted to establish tolls on I-95, under a pilot program that permits tolling on roads that were constructed with federal funds, but has been informed that the final slot under this pilot program has been granted to another state.

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 are prepared in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments and other applicable statement*. 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. 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.

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 15 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the General Assembly on or before the third Thursday in January, 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 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 General Assembly 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 third Thursday 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 and/or enacted by the General Assembly.

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 was capped at 3 percent of General Fund revenues. The reserve account was funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Plan Fund. If funds are withdrawn, the Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Reserve Account to the General Fund. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation, the General Fund ended FY 2009 with a deficit of $62.3 million. The FY 2010 enacted budget included $22.0 million of appropriations to repay the Rhode Island Capital Plan Fund. However, the enacted Supplemental FY 2010 budget delayed that repayment to the Rhode Island Capital Plan Fund to FY 2011. The Governor's FY 2011 Supplemental Budget requested that this repayment be delayed again to FY 2013, but subsequent to the May Revenue Estimating Conference, the Governor requested that some of the additional revenues estimated to be available in FY 2011 be used to make this payment as originally enacted. The General Assembly approved this request as part of the final enacted FY 2011 Supplemental Budget. The balance of the Budget Reserve Account at the end of FY 2012 according to the State Controller's preliminary closing report was $153.4 million.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Plan Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment, beginning on July 1, 2012, increases the Budget Reserve Account by limiting annual appropriations to ninety-seven percent (97.0%) of estimated revenues and increasing the cap on the budget reserve account to five percent (5.0%) of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the Budget Reserve Account maximum balance would be gradually increased by 0.4 percent annually to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2012, spending was limited to 97.2 percent of revenue and the Budget Reserve Account was capped at 4.6 percent. In FY 2013, spending is limited to 97.0 percent and the Budget Reserve Account will be capped at 5.0 percent.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit. Based on the State Controller's preliminary closing report issued on August 30, 2012, $12.5 million of the General Fund balance has been restricted for this transfer.

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 Revenue's Office of Municipal Finance 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 compared with the projected revenues and appropriations. The report also contains a projection of a year-end balance.

The State Controller is required by 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 quarterly statements of 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 also performs an audit of the State's compliance with federal program requirements. 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.

Recent Events

Federal Debt Limit and Potential Federal Spending Cuts: On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade. It is not known what impact, if any, these cuts may have on the State. It is possible that certain federal aid and other federal payments to the State, as well as to other states and municipalities, could be significantly reduced or otherwise affected. The budget and financial health of the State could be materially adversely affected by any material disruption or change in the flow of anticipated federal dollars to the State.

Tropical Storm Irene: On September 3, 2011, the President signed a declaration of emergency for the five counties in the State, as a result of damage from Tropical Storm Irene on August 27-28, 2011. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair or replacement of disaster damaged facilities. As of September 18, 2012, the RI Emergency

Management Agency has collected data on damage and costs incurred by various municipalities and state agencies totaling approximately $8.4 million. The State anticipates that FEMA will reimburse up to 75 percent of these costs.

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 2012 reflect preliminary revenues according to the State Controller's preliminary closing report. For a discussion of FY 2012 Revenues, see "General Revenues – FY 2012 Preliminary Revenues". For a discussion of FY 2013 revenues, see General Revenues – FY 2013 Enacted Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2012, 75.9 percent of all tax revenues were derived from the Rhode Island personal income tax and the sales and use tax. These two revenue sources constituted 58.4 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. 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 based 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 corporations). 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 a plan 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. 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. 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 of taxable income 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 on certain business tax liabilities 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 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 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 General Assembly repealed several tax credits that were not cost effective. The tax credits repealed included those for the costs incurred to receive certification from the International Standards Organization (ISO), for the loan guaranty fees charged by the U.S. 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 enacted legislation 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 repealed the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the 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. In FY 2006, 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 10.0 percent to 15.0 percent. The General Assembly also increased the amount of Rhode Island Property Tax Relief from $250 to $300 for tax year 2006.

Also, in the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits. This tax credit allows a motion picture production company to receive a tax credit equal to twenty-five (25%) of its certified production costs for activities occurring within the State. To avail itself of the tax credit: (i) the motion picture production company must be formed under State law; (ii) the primary locations for the motion picture must be within the State; and (iii) the minimum production budget for the motion picture must be three hundred thousand ($300,000.00) dollars. The State's Film Office must approve the motion picture and give initial and final certification. In connection with securing final certification, the motion picture production company must submit an independent accountant's certificate listing the costs associated with the tax credit. The motion picture production company "earns" the tax credit in the taxable year when production in the State is completed, and unused credit can be carried over for three years. The credit is assignable and any proceeds received by the motion picture production company for the assignment are exempt from State tax. These tax credits may be used to offset the personal tax or certain business tax liabilities of a taxpayer.

In the 2006 Session, the General Assembly enacted a new alternative flat tax calculation for personal income tax that taxpayers may elect. The alternative flat tax created a simplified calculation of personal income tax liability. The calculation of the alternative flat tax for tax year 2006 was 8.0 percent multiplied by the taxpayer's modified adjusted gross income. The alternative flat tax calculation allows for a limited number of credits. The only credits allowed are for taxes paid to other states, for personal income tax withheld, for credit payments of estimated tax, for overpayment of taxes and for the amount of taxes remitted by a limited liability company on behalf of a nonresident member. The alternative flat tax rate was to decrease until the tax rate reaches 5.5 percent. In tax year 2007 the rate was 7.5 percent, in tax year 2008 the rate was 7.0 percent, in tax year 2009 the rate was 6.5 percent, in tax year 2010 the rate was 6.0 percent and, prior to the elimination of the alternative flat tax rate, in tax year 2011 and thereafter the rate was to be 5.5 percent. If a taxpayer does not elect the flat tax, then the regular State tax rules apply to determine an individual's State income tax liability.

In the 2007 Session, the General Assembly modified the provision for eliminating capital gains taxes on assets held more than five years. Prior to the passage of the FY 2008 Budget, two-thirds of the capital gains taxes on assets held for more than five years was effectively eliminated, taking effect on January 1, 2007. Complete elimination of this tax was scheduled for tax year 2008, but the General Assembly enacted legislation leaving the remaining one-third of the original tax in place.

In the 2007 Session, the General Assembly extended a credit created in the 2006 Session for corporations' contributions to qualified scholarship organizations. Personal income tax payers may use this credit only as a pass-through from a subchapter S corporation, limited liability partnership, and limited liability corporation. This tax credit is discussed in more detail below under "Tax Revenues – Business Corporation Tax".

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to $356.2 million in revenue bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). In June 2009, $150.0 million of the Economic Development Corporation bonds were issued and secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, in the amount of $3.8 million, were deposited in a restricted receipt account and were applied prior to June 30, 2009 to the reimbursement of the historic tax credits previously taken. Beginning in May 2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference no longer reflect a reduction for historic structure tax credits as any credits redeemed are to be reimbursed from the funds authorized by the General Assembly.

In addition, in the 2008 Session, the General Assembly enacted legislation to hold the State's personal income tax harmless with respect to the passage at the federal level of the "Recovery Rebates and Economic Stimulus for the American People Act of 2008". Under the legislation, Rhode Island's state tax code with respect to personal income does not allow for change in depreciation of assets under Section 179 of the Internal Revenue Code. Finally, in 2008 the General Assembly repealed the State's allowance for the pass through of the federal foreign tax credit and capped the Motion Picture Production Tax Credit program at $15.0 million annually.

In the 2009 Session, the General Assembly let the changes in the federal earned income tax credit (EITC) program contained in the American Recovery and Reinvestment Act of 2009 (ARRA) pass through to the Rhode Island personal income tax return. The federal change allows for a temporary increase in the EITC from 40.0 percent of the first $12,570 of earned income to 45.0 percent of the same for families with three or more children. The 2009 General Assembly chose not to have the State's personal income tax adversely impacted by two other provisions of ARRA, namely the exclusion of the first $2,400 of unemployment compensation from federal adjusted gross income and the deduction from federal adjusted gross income of the state sales tax paid on new, qualified motor vehicles purchased between February 17, 2009 and December 31, 2009.

In addition, in the 2009 Session, the General Assembly passed legislation that requires Rhode Island taxpayers to add back to federal adjusted gross income the recognition of income from the discharge of business indebtedness that has been deferred for federal tax purposes under ARRA. Furthermore, the Assembly changed the treatment of capital gains income for Rhode Island income tax purposes such that all realized net capital gains will be taxed at ordinary income tax rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent depending on a taxpayer's Rhode Island taxable income or the applicable flat tax rate, if the alternative flat rate tax system is elected. This change applies to assets sold on or after January 1, 2010.

In the 2010 Session, the General Assembly enacted a substantive structural reform of the State's personal income tax system. The reformed personal income tax system replaces both the five bracket progressive tax rate and the alternative flat tax rate personal income tax systems effective for tax years beginning after December 31, 2010. The reformed personal income tax system begins with federal Adjusted Gross Income (AGI) modified as provided for in current law and then subtracts an enhanced standard deduction of between $7,500 and $15,000 and a personal and dependent exemption amount of $3,500 to arrive at taxable income. Both the enhanced standard deduction and the personal and dependent exemption amounts are subject to phase-out at modified AGI of more than $175,000. Unlike in prior tax years, itemized deductions can no longer be passed through from a taxpayer's federal income tax return. Taxable income is then subject to tax at marginal rates of 3.75, 4.75, and 5.99 percent to yield the Rhode Island tax liability before credits. In the tax years ending before January 1, 2011, taxpayer's could choose to either subject modified AGI less deductions and exemptions to marginal rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent or subject modified AGI to the alternative flat tax rate (which was 6.0 percent in Tax Year 2010) to yield Rhode Island tax liability before credits. Under the reformed personal income tax system, eight tax credits may be taken against the computed Rhode Island tax liability versus 34 tax credits that could be utilized against the Rhode Island tax liability computed under the five bracket progressive rate personal income tax system. (No credits other than taxes paid to other states are allowed for taxpayers that utilized the alternative flat tax rate system.) The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit, the property tax relief credit, the lead paint abatement credit, a child and dependent care credit, credit for taxes paid to other states, the motion picture production company credit, the credit for contributions to qualified K-12 scholarship organizations, and the historic structures tax credit. Each of these credits is also available under current law. At the time of enactment, the reformed personal income tax system was estimated to be revenue neutral in FY 2011.

In the 2011 Session, the Governor proposed and the General Assembly passed legislation which created two top 100 delinquent taxpayers lists, one list for the top 100 delinquent individual taxpayers and another list for the top 100 delinquent business taxpayers. Prior to July 1, 2011 only one list was published online for both categories of delinquent taxpayers. Additionally, the General Assembly accepted the Governor's proposal to offset lottery winnings in excess of $600 against taxes owed to the Tax Administrator. Finally, the General Assembly passed and the Governor signed into law the addition of four Revenue Agent I positions for the sole purpose of auditing and compliance activities associated with the Division of Taxation's Data Warehouse program.

In the 2012 Session, the General Assembly accepted two proposals included in the Governor's FY 2013 recommended budget. The first proposal was to discontinue the preparation of personal income tax returns for individual taxpayers at no cost. The discontinuation of this service allows the Division of Taxation to reallocate two Revenue Agent I positions from the Taxpayer Services Section to the Office Audit Section to perform compliance audits on the personal income tax. It is anticipated that the reallocation of Division of Taxation staff will generate $1.3 million in additional personal income tax revenues in FY 2013. The second proposal put forth in the Governor's FY 2013 recommended budget that was accepted by the General Assembly is the 2012 Tax Amnesty Act. This act provides for a tax amnesty on overdue taxes that were incurred prior to January 1, 2012 during the period September 1, 2012 through November 15, 2012. The purpose of the tax amnesty is to provide delinquent taxpayers the opportunity to pay taxes that may have become overdue as a result of the Great Recession. Under the tax amnesty, taxpayers with overdue taxes can pay said taxes without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on overdue taxes owed to the State from 18.0 percent to 13.5 percent). It is estimated that the tax amnesty program will increase personal income tax revenue by $3.0 million.

Finally, in the 2012 Session, the General Assembly enacted legislation to alter the motion picture production tax credit by (i) allowing documentary productions to qualify for the credit; (ii) defining "Final Production Budget" to include total pre-production, production, and post-production out-of-pocket costs incurred and paid in connection with making a motion picture; (iii) expanding the definition of "Primary Locations" to include that at least 51.0 percent of a motion picture's final production budget is spent and at least five individuals are employed in Rhode Island or in the case of a documentary production that 51.0 percent of the total production days are located in the State; (iv) reducing the total production budget threshold to qualify for the credit to $100,000; (v) limiting the total amount of credit an eligible motion picture production can receive to $5.0 million except in the case of a feature length film or television series up to a maximum of $15.0 million; and (vi) creating a Musical and Theatrical Production Tax Credit that allows any entity that receives "an accredited theater production certificate" a credit of 25.0 percent of the accredited production's "total production and performance expenditures and transportation expenditures" up to a maximum credit of $5.0 million provided that the total production budget is at least $100,000. The musical and theatrical production tax credits are included in the same overall calendar year cap imposed on the motion picture production tax credit. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined above will likely have no impact on personal income tax revenues received by the State.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. In FY 2012, personal income tax revenues totaled $1.061 billion or 32.4 percent, of preliminary FY 2012 total general revenues. This represented the third highest total of personal income tax revenues received in the State's history and the first time personal income tax revenues were above $1.0 billion since FY 2008. Preliminary FY 2012 personal income tax revenues increased by $39.5 million from final audited FY 2011revenues but decreased in the share of total general revenues from FY 2011 levels.

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 and most footwear; (c) prescription medicines and medical devices; (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 are 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 was $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 the sale of aircraft or aircraft parts from the sales and use tax effective January 1, 2005.

In the 2005 Session, the General Assembly enacted legislation 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.

In the 2006 Session, the General Assembly passed legislation to conform to the Streamline Sales Tax Project. Effective January 1, 2007 Rhode Island became a full member of the Streamline Sales Tax Agreement. The Streamlined Sales Tax Project is an effort created by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. By joining Streamline, Rhode Island now has over 1,000 taxpayers who are voluntarily collecting and remitting use tax for sales into Rhode Island even though they do not have a legal requirement to do so.

In the 2009 session, the General Assembly enacted legislation to expand the definition of retailer subject to the state's sales and use tax. In particular, the General Assembly added as a category of retailer, "[E]very person making sales of tangible personal property through an independent contractor or other representative, if the retailer enters into an agreement" with a Rhode Island resident under which the Rhode Island resident receives "a commission or other consideration" for "directly or indirectly, whether by a link on an Internet website" or by other means referring potential customers to the retailer. Known as the "Amazon tax", this expanded definition of retailer took effect on July 1, 2009.

In the 2010 session, the General Assembly passed legislation that legalized the sale and possession of "ground and hand-held sparkling devices", including cylindrical and cone fountains, illuminating torches, wheel and ground spinners, flitter sparklers, toy smoke devices, and wire sparklers/dipped sticks. The legalization of these types of pyrotechnic products was effective June 11, 2010 and expanded the state's taxable retail sales base. In addition, the General Assembly declared Landmark Medical Center (LMC) to be a "distressed essential community hospital" and exempted it, or "any entity owned or controlled by LMC" or any successor-in-interest to LMC "regardless of whether any such successor operates for profit or is subject to federal or state taxation" from the sales and use tax that might be due in connection with any purchases, capital improvements, or any other activities conducted…pursuant to the health facility licenses maintained by LMC (or its successors-in interest)." This legislation has no impact on the State's sales and use tax collections as Landmark Medical Center is currently exempt from the State's sales and use tax as a nonprofit hospital under Rhode Island General Law § 44-18-30(5). Finally, in the 2010 Session, the General Assembly exempted diesel emission control technology that is required by Rhode Island General Law § 31-47.3-4 from the State's sales and use tax.

In the 2011 Session, the General Assembly passed and the Governor signed into law an expansion of the sales tax base. Four items which were previously exempt from the sales and use tax were made subject to the sales and use tax effective October 1, 2011. These four items are: (1) package tour and scenic and sightseeing transportation services; (2) prewritten computer software delivered electronically or by load and leave; (3) patent medicines available without a prescription, including medical marijuana; and (4) insurance proceeds received from the total loss of a passenger automobile that were previously allowed as a trade-in allowance when purchasing a replacement passenger automobile. It should be noted that these changes will have a full fiscal year impact in FY 2013. Additionally, the 2011 Session enacted legislation to reduce the sales and use tax from 7.0 percent to 6.5 percent upon the passage of any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents, effective the first day of the first state fiscal quarter following passage. Further, upon any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents the rate for the local meal and beverage tax and the local hotel tax shall be increased from 1.0 percent to 1.5 percent, effective the first day of the first state fiscal quarter following passage. It should be noted that no such legislation has passed yet at the federal level.

In the 2011 Session the General Assembly also enacted legislation and the Governor signed into law the elimination of two sales and use tax exemptions, one administered by the Rhode Island Economic Development Corporation (RIEDC) and one administered by the Rhode Island Industrial Facilities Corporation (RIIFC) effective July 1, 2011. Prior to July 1, 2011 RIEDC and RIIFC were authorized to grant a sales and/or use tax exemption to eligible companies for the materials used in the construction and/or rehabilitation of a building and the equipment purchased to outfit the building for use. Eligible companies with currently active sales and use tax exemption agreements or eligible companies with projects approved prior to July 1, 2011 will receive the sales and use tax exemption through the end of the respective project agreements.

Finally, during the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list.

In the 2012 Session, the General Assembly approved the extension of the State's 7.0 percent sales tax, effective October 1, 2012, to (1) pet services providers other than providers of veterinary services and laboratory testing; (2) taxicabs and other providers of road transportation services; and (3) items of clothing and footwear that cost more than $250.00 per item By instituting a threshold amount above which an item of clothing or footwear becomes taxable, the State will no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) causing the State to forego the receipt of sales tax collected by remote sellers that are signatories to the SSUTA. It is anticipated that sales tax revenues will increase by $10.7 million from the expansion of the sales tax to these items but decrease by $1.4 million due to non-compliance with the SSUTA. The net impact of the approved sales tax base expansion is anticipated to increase revenues in FY 2013 of $9.4 million. It should be noted that these changes will have a full fiscal year impact in FY 2014. The Rhode Island Taxi Owners Association and Airport Taxi, Inc. initiated a lawsuit on September 28, 2012, challenging the enforceability of the law and regulations extending the sales tax to taxicabs and other providers of road transportation services by arguing, among other things, that the law and/or regulations are unconstitutional and were not implemented in accordance with certain State laws. The State projected revenues in FY 2013 of approximately $2.5 million as a result of the sales tax on taxicabs and other providers of road transportation services based upon the nine months of the fiscal year it is to be in effect. The State believes the lawsuit fails to have merit and is contesting the case. The General Assembly also repealed the application of the sales tax to providers of package tours and scenic and sightseeing transportation. The General Assembly had approved the expansion of the sales tax base to include providers of package tours and scenic and sightseeing transportation during the 2011 Session. The contraction of the sales tax base to exclude providers of package tours and scenic and sightseeing transportation is anticipated to reduce FY 2013 sales and use tax revenues by $600,000.

In the 2012 Session, the General Assembly accepted the Governor's proposal in the FY 2013 recommended budget to increase the State's cigarette excise tax. One of the impacts of this tax increase is to raise the retail price of a pack of cigarettes which is subject to the State's sales and use tax. It is estimated that sales and use tax revenues will increase by $128,873 in FY 2013 from higher retail cigarette prices that result from the increased cigarette excise tax rate. Additionally, in the 2012 Session, the General Assembly's acceptance of the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above, is expected to increase FY 2013 sales and use tax revenues by $4.4 million.

Further, in the 2012 Session, the General Assembly passed and the Governor signed into law a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that a compassion center can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by a compassion center. Although state law currently allows compassion centers to sell medical marijuana, no compassion center licenses have been issued primarily due to the objections of the U.S. Attorney. The new legislation is designed to make it possible for said licenses to be issued and, since the retail sale of medical marijuana is subject to the State's sales tax, it is estimated that sales and use tax revenues will increase by $837,996 in FY 2013.

Finally in the 2012 Session, the General Assembly passed and the Governor signed into law an expansion of the sales and use tax "exemption for buses, trucks and trailers used in interstate commerce". The sales and use tax exemption was expanded to include buses used 80.0 percent or more in interstate commerce rather than the 100.0 percent threshold in place under prior law. The exemption of buses used 80.0 percent or more in interstate commerce is also applied to local motor vehicle excise taxes levied by municipalities. It is anticipated that state sales and use tax revenues and local tax revenues will decrease as the result of the enactment of this legislation; however, no specific level of impact can be determined.

The sales and use tax totaled $850.4 million, or 26.0 percent, of the State's FY 2012 total preliminary general revenues. FY 2012 sales and use tax collections increased in dollar terms but decreased in the share of total general revenues from FY 2011.

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 1996, the General Assembly enacted the Jobs Development Act (JDA). As subsequently amended, it provided for rate reductions of one-quarter of one percent (up to a maximum reduction of six percent) for each 50 new jobs created by eligible firms (each 10 new jobs created by a small business concern) for three years past the elected base year. A qualifying job is 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 the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". 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 of the General Laws 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.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the business corporation tax liability of a taxpayer.

In the 2006 Session, the General Assembly created a new credit for corporations for contributions to qualified scholarship organizations. The Division of Taxation is responsible for certifying the scholarship organizations and administering the credit. The amount of the credit depends on the commitment from the corporation. If the corporation makes a two year contribution commitment, the calculation of the credit for each year shall be 90 percent of the total voluntary contribution made by the business entity. If the commitment is less than two years, the amount of credit will be either 75 percent or 80 percent.

The 2006 General Assembly also enacted legislation contained in P.L. 2006 Chapter 568 authorizing the Economic Development Corporation (EDC) to issue up to $2.0 million of Innovation and Growth Tax Credits not to exceed $2.0 million during any two-year period. The purpose of the credit is to attract and retain serial entrepreneurs and to catalyze economic growth in high-wage, high-growth industries.

In the 2007 Session, the General Assembly passed legislation redefining taxable corporation net income. The 2007 legislation includes deductible interest expenses and costs and intangible expenses and costs as net income. These costs must be added back into net income for the purpose of calculating business corporation tax liability. In addition, gross sales of tangible personal property shipped out of Rhode Island to a state where the taxpayer is not taxable are now taxable as part of the business corporation tax. The Assembly also enacted legislation including captive real estate investment trusts, or REITs, as taxable corporations.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of business corporations tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a discussion of the bonds being issued to fund the Historic Preservation Tax Credit Fund.

In addition, the 2008 General Assembly amended the 2006 Innovation and Growth Tax Credits legislation and reduced the EDC's authorization from $2.0 million, not to exceed $2.0 million in any two year period to $1.0 million, not to exceed $1.0 million in any two year period.

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the JDA. The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition.

In the 2010 Session, the General Assembly imposed a tax at the rate of 7.5 percent on the taxable income of political organizations as both are defined under Section 527 of the United States Internal Revenue Code. The Political Organization Tax applies only to those political organizations that have $100 or more of political organization taxable income.

In the 2011 Session, the General Assembly proposed and the Governor signed into law the repeal of the exemption of limited partnerships and limited liability partnerships from the corporate minimum tax. Rhode Island's corporate minimum tax is $500. Additionally, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. Finally, the General Assembly proposed and the Governor signed into law a provision requiring corporations that are part of a "unitary business" to cooperate with the Division of Taxation in a two-year study of the impact that the implementation of combined reporting would have on state revenues as well as the tax liabilities of business corporation taxpayers.

In the 2012 Session, the General Assembly approved the expansion of the enterprise zone in the Town of Middletown to include federal census tract 403.02 and redefined the enterprise zone designation for federal census tract 404 from blocks 2025, 2026, and 2030 to block groups 2 and 3 as approved by the Middletown Town Council. These changes will allow more business corporations tax filers to claim the Enterprise Zone wage tax credit. It is expected that business corporation tax revenues will decrease by $22,348 in FY 2013. This legislation became effective on June 26, 2012 without the Governor's signature.

Additionally, in the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 business corporations tax revenues by $351,413. Finally in the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on business corporations tax revenues received by the State.

Business corporations tax revenues totaled $123.2 million, or 3.8 percent, of the State's FY 2012 preliminary total general revenues. FY 2012 preliminary business corporations tax revenues increased in both dollar terms and in the share of total general revenues from final audited FY 2011 revenues. It should be noted that the increase in preliminary FY 2012 revenues reflects the change in the accrual calculation methodology implemented by the Auditor General and State Controller in FY 2011 to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the developmentally disabled. 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. From January 1, 2008 through September 30, 2011, the health care provider assessment on residential facilities for the developmentally disabled will be reset to 5.5 percent of gross revenues due to a rule-making by the Center for Medicare and Medicaid Services (CMS), the federal agency responsible for administering Medicare, Medicaid, SCHIP, HIPAA, and several other health related programs.

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 1.5 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the General Assembly reduced the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowered payments received from the 5.5 percent provider tax. The Assembly enacted a decrease of total payments to nursing homes of $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, a series of expenditure reductions to nursing homes lowered State tax revenues. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes.

In the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. The General Assembly proposed and the Governor signed into law the elimination of the "cost-of-living-adjustment" (COLA) that nursing home providers would have received effective July 1, 2011. The COLA would have been in addition to increased payments to nursing home providers of $6.5 million in FY 2012. The increased revenues to nursing home providers resulting from the COLA would have been subject to the 5.5 percent health care provider assessment.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 business corporations tax revenues by $6,533.

The health care provider assessment accounted for approximately $41.9 million, or 1.3 percent of the State's FY 2012 preliminary total general revenues. The dollar amount increased for the health care provider assessment between preliminary FY 2012 and audited FY 2011; however, the share of total general revenues slightly decreased between the two fiscal years.

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.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". 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.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the tax liability of public service corporations.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of public service gross earnings tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the Jobs Development Act (JDA). The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition.

The 2011 General Assembly passed legislation that requires Rhode Island electric and gas distribution companies to implement a Low Income Home Energy Assistance Program (LIHEAP) Enhancement Charge of not more than $10.00 per customer account such that total projected revenue from the LIHEAP Enhancement Surcharge is no less than $6.5 million and no more than $7.5 million in a given year. The monies generated from the surcharge are to be retained by the Rhode Island electric and gas distribution companies and used to "provide a credit to customers' accounts that are receiving federal LIHEAP assistance payments".

The public service corporation gross earnings tax accounted for approximately $100.6 million, or 3.1 percent, of the State's FY 2012 preliminary total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2012 and FY 2011.

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 business. 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 (i.e., non-Rhode Island) jurisdiction 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, and the premiums paid to nonprofit medical service corporations, nonprofit hospital service corporations, nonprofit dental service corporations and health maintenance organizations. 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 2.0 to 4.0 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 defined as 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.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". 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 enacted legislation eliminating the exemption from the insurance companies gross premiums tax for the insurer that maintains the State's workers compensation insurance fund effective July 1, 2005.

Also in the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the gross premium tax of insurance companies.

In the 2007 Session, the General Assembly amended the tax on insurance companies to provide for a 1.1 percent gross premium tax on health maintenance organizations, any non-profit hospital or medical service corporations, excluding any business related to Title XIX of the Social Security Act.

In the 2008 Session, the General Assembly added nonprofit dental service corporations to the definition of non-profit medical service corporations subject to the gross premiums tax and increased the tax from 1.1 percent to 1.75 percent of gross premiums for tax year 2009.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of insurance companies gross premiums tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly enacted legislation increasing the tax rate on the gross premiums of nonprofit hospital service corporations, nonprofit medical service corporations, nonprofit dental service corporations, and health maintenance organizations to 2.0 percent from 1.75 percent effective January 1, 2009. Also in the 2009 Session, the General Assembly eliminated the insurance companies gross premiums tax exemption from providers of Title XIX managed care programs for Medicaid beneficiaries. These providers would be subject to the 2.0 percent insurance companies gross premiums tax effective January 1, 2009.

In the 2010 Session, the General Assembly enacted legislation to repeal the exemption from the insurance companies gross premiums tax that was granted to any joint underwriting association that issued contracts for medical malpractice insurance effective January 1, 2011. In addition, the 2010 General Assembly increased the rate of tax from 3.0 percent to 4.0 percent for contracts of insurance written by surplus line brokers effective January 1, 2011.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 insurance companies gross premiums tax revenues by $25,327. Finally in the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on insurance companies gross premiums tax revenues received by the state.

Insurance companies gross premiums tax revenues accounted for approximately $89.5 million, or 2.7 percent, of the State's FY 2012 preliminary total general revenues. Both the dollar amount and the share of total general revenues for insurance companies gross premiums tax revenues increased between FY 2012 and FY 2011. It should be noted that the increase in preliminary FY 2012 revenues largely reflects the change in the accrual calculation methodology implemented by the Auditor General and State Controller in FY 2011 to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

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.

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 2.0 to 4.0 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 defined as 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 the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the excise tax owed by financial institutions.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the excise tax owed by financial institutions.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of the financial institutions tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009, no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the Jobs Development Act (JDA). The JDA allows qualifying financial institutions to reduce their tax rate in exchange for hiring a specific number of eligible full-time equivalent active employees. The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition.

In the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on financial institutions tax revenues received by the state.

The financial institutions tax accounted for approximately $3.6 million, or 0.1 percent of the State's FY 2012 preliminary total general revenues. The dollar amount and share of total general revenues increased for financial institutions excise tax revenues between FY 2012 and FY 2011.

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 0.0348 cents for each $100 for institutions with over $150 million in deposits and a rate of 0.0313 cents for each $100 applying to credit unions with less than $150 million in deposits.

The bank deposits tax accounted for approximately $2.0 million, or less than 0.1 percent, of the State's FY 2012 preliminary total general revenues. The dollar amount of bank deposits taxes increased but the share of total general revenues decreased between FY 2012 and FY 2011.

Estate Tax. For decedents whose deaths occurred before January 1, 2002, the estate tax equals the applicable credit allowable under federal estate tax law. For decedents whose deaths occur on or after January 1, 2002, the estate tax equals 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 the date of death.

In the 2009 Session, the General Assembly passed legislation that increased the exemption amount for net taxable estates subject to the State's estate tax. In particular, the General Assembly increased the exemption amount to $850,000 for the net taxable estates of decedents whose death occurs on or after January 1, 2010. In addition, the General Assembly indexed this exemption amount beginning on January 1, 2011 to the Consumer Price Index for all Urban Consumers as of September 30 of the prior calendar year.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 estate tax revenues by $248,959.

The estate tax accounted for approximately $46.4 million, or 1.4 percent, of the State's FY 2012 preliminary total general revenues. The dollar amount of estate tax revenues and its share of total general revenues decreased slightly between FY 2012 and FY 2011. It should be noted that the decrease in preliminary FY 2012 estate tax revenues incorporates the change in the accrual calculation methodology implemented by the Auditor General and State Controller in FY 2011 to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

Cigarettes 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 over 95 percent of the total cigarette taxes collected by the State.

The cigarette stamp tax rate 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 and on July 1, 2004, it was increased by 75 cents to $2.46 per pack of 20 cigarettes. Effective April 10, 2009 the cigarette stamp tax rate increased from $2.46 per pack of 20 cigarettes to $3.46 per pack.

The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past several 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. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products. On July 1, 2006, the tax on cigars was limited to a maximum of 50 cents per cigar and the tax on snuff was changed to $1.00 per ounce with a minimum tax of $1.20.

In the 2009 Session, the General Assembly raised the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent effective April 10, 2009. This increase in the wholesale price tax did not affect the maximum tax on cigars or the minimum tax on snuff.

In the 2012 Session, the General Assembly accepted the Governor's FY 2013 budget recommendation to increase the cigarette excise tax stamp rate from $3.46 per pack of 20 cigarettes to $3.50 per pack of 20 cigarettes effective July 1, 2012. It is estimated that the cigarette stamp tax increase will generate $1.7 million more in cigarettes tax revenues in FY 2013. Additionally, in the 2012 Session, the General Assembly concurred with the Governor's FY 2013 budget proposal to amend the definition of a little cigar to include all non-cigarette tobacco products with an integrated filter that weigh 4.0 pounds or less per 1,000 individual sticks. Under prior law the weight threshold was 3.0 pounds or less per thousand individual sticks. The change in definition for little cigars subjects more non-cigarette tobacco products to the cigarette excise tax of $3.50 per pack of 20 individual sticks rather than the other tobacco products tax of 80.0 percent of the wholesale cost. It is projected that FY 2013 cigarettes tax revenues will increase by $2.4 million from this change in the definition of a little cigar. Finally, the Governor proposed and the General Assembly accepted legislation for four Tax Investigator positions in the Division of Taxation to fully staff its tobacco tax enforcement task force. It is expected that enhanced tobacco tax enforcement will increase FY 2013 cigarettes tax revenues by $2.9 million, mainly through increased compliance with existing state tobacco tax laws.

Cigarettes tax revenues accounted for approximately $131.1 million, or 4.0 percent, of the State's FY 2012 preliminary total general revenues. Both the dollar amount of cigarettes tax revenues and its share of total general revenues decreased between FY 2012 and FY 2011.

Motor Fuel Tax. The tax is due 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. Taxes paid in prior periods are subject to refund if it is later determined that such tax was not due and payable on the motor fuel purchased.

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. The 2.0 cents per gallon increase in the gas tax was to remain with the General Fund for all future tax years.

The allocation of motor fuel tax 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, 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 transferred 1.0 cent of the motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

In the 2009 Session, the General Assembly passed legislation to allow the $0.01 per gallon of the motor fuel tax that was transferred to the general fund to remain with the Department of Transportation. In addition, the General Assembly increased the state's motor fuel tax by $0.02 per gallon to $0.32 per gallon. The additional revenue from the $0.02 per gallon increase in the motor fuel tax was dedicated for use by the Rhode Island Public Transit Authority (RIPTA). The tax increase has no impact on state general revenues. Further, the General Assembly passed legislation that exempts the biodiesel portion of certain gallons of blended petro-diesel motor fuel from the state's motor fuel tax. This legislation has no impact on State general revenues. Finally, the General Assembly agreed to transfer to RIPTA one-half cent of the $0.01 per gallon surcharge on motor fuel that was designated for the Underground Storage Tank Review Board. This reallocation has no effect on state general revenues.

Preliminary FY 2012 motor fuel tax revenues accounted for zero percent of the State's FY 2012 preliminary total general revenues. Effective July 1, 2009 the State's general fund no longer receives any of the revenues generated by the State's $0.32 per gallon motor fuel tax. .

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, motor carrier fuel use 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. 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 enacted legislation to increase a number of motor vehicle registration and operator license fees effective July 1, 2005.

In the 2007 Session, the General Assembly enacted an automobile registration fee schedule based on gross vehicle weight as well as increasing the service charge and registration fees for specialty license plates.

In 2010 the General Assembly passed legislation to increase the fee charged for the issuance of a State Identification Card and for the registration of a school bus. For both the new fee is $25.00, under prior law, the fee for the issuance of a State Identification Card was $15.00, while the fee for the registration of a school bus was $3.00.

In addition, the 2010 General Assembly enacted legislation dropping the requirement that Twin River conduct 125 days of live greyhound racing per year in order to retain the license to house the 4,752 video lottery terminals that Twin River is authorized to manage.

In 2011 the General Assembly passed legislation and the Governor signed into law the establishment of the Rhode Island Highway Maintenance Trust Fund. The purpose of the trust fund is to provide stable financing for the state's Transportation Improvement Program. The Rhode Island Highway Maintenance Trust Fund will be financed by assessing a $30.00 surcharge on the biennial registration of passenger cars and light trucks; a $15.00 surcharge on the annual registration of commercial vehicles; and a $30.00 surcharge on operator licenses which are renewed every five years. These surcharges will be phased-in over a three year period beginning in FY 2014, when one third of each surcharge will be added to the relevant registration and operator license transaction. For FY 2015 the surcharge will increase to two-thirds of the specified surcharge and will be added to the relevant registration and operator license transaction and in FY 2016 the full surcharge amount will be imposed on every registration and operator license transaction. As a result of this legislation there is no fiscal impact for FY 2012.

In the 2012 Session, the General Assembly passed legislation that the Governor signed into law which increased the rental vehicle surcharge from 6.0 percent to 8.0 percent and decreased the State's share of total rental vehicle surcharge revenues from 50.0 percent to 40.0 percent. It is estimated that rental vehicle surcharge revenues will increase by $193,333 in FY 2013 as a result of these changes.

Additionally, in the 2012 Session, the General Assembly passed and the Governor signed into law legislation that exempted any "qualified sale" of a mobile and manufactured home park to a resident organization from state and local excise taxes. A qualified sale is defined as the sale of a mobile or manufactured home park to a residential organization with the goal of resident ownership by at least 51.0 percent of the homeowner households residing in the park. It is anticipated that realty transfer tax revenues will decrease by $7,576 in FY 2013.

Other taxes accounted for approximately $68.8 million, or 2.1 percent, of the State's FY 2012 preliminary total general revenues. FY 2012 other tax revenues increased slightly in dollar terms but decreased slightly in its percentage share of total general revenues between preliminary FY 2013 and audited FY 2011.

Departmental Receipts. In FY 2012, 76.5 percent of all departmental receipts revenues were derived from the various licenses and fees assessed by state agencies. Departmental receipts revenues comprised 10.4 percent of all general revenues in preliminary FY 2012.

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 fee 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. 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.

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 hospitals' 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 hospitals' 1995 base year.

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 hospitals' 1999 base year. 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 hospitals' 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. 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.

Also, in the 2005 Session, 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.

In the 2006 session, the General Assembly re-instituted the hospital licensing fee at a rate 3.56 percent applied to 2004 base year net patient revenues and delayed its receipt until July 2007. Normally, the hospital licensing fee was due in December of the fiscal year.

In the 2007 Session, the General Assembly decreased the hospital licensing fee to 3.48 percent of net patient revenues and advanced the base year to 2006 but maintained the July payable date.

In the 2008 Session, the General Assembly increased the hospital licensing fee to 4.78 percent and advanced the base year to 2007 while maintaining the July payment schedule.

In the 2008 Session, the General Assembly placed a moratorium on the Historic Preservation Tax Credit program and gave developers with on-going projects a choice of either prepaying the processing fee at a rate of 3.0 percent in exchange for a 25.0 percent tax credit upon project completion, prepaying the processing fee at a rate of 4.0 percent in exchange for a 26.0 percent tax credit upon project completion, or prepaying the processing fee at a rate of 5.0 percent in exchange for a 27.0 percent tax credit upon project completion. Developers that wished to remain eligible for Historic Preservation Tax Credits for their projects were required to pay a 2.25 percent processing fee by March 15, 2008 with the remaining percent due on March 5, 2009. Fees collected on or before June 30, 2008 were deposited into the general fund while fees paid after June 30, 2008 were placed into a restricted receipt account.

In the 2009 Session, the General Assembly passed legislation to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009. In addition, the 2009 General Assembly increased the hospital licensing fee rate for FY 2009. Specifically, the General Assembly increased the hospital licensing fee rate for FY 2009 to 5.437 percent and applied it to the 2007 base year net patient revenues. For FY 2010, the General re-instated the hospital licensing fee but decreased the rate to 5.237 percent and applied it to each hospital's fiscal 2008 net patient revenue. The payment of the FY 2010 hospital licensing fee occurred in July 2010.

Further, the 2009 General Assembly increased several fees administered by the Coastal Resources Management Council, raised numerous professional license fees collected by the Department of Business Regulation, and instituted a fee to expunge criminal records. Each of these fee changes were effective July 1, 2009.

In the 2010 Session, the General Assembly increased the rate of the hospital licensing fee from 5.237 percent to 5.314 percent applied to each hospital's fiscal year 2008 net patient revenue. (It should be noted that the FY 2010 hospital licensing fee was paid in July 2010 and accrued back to FY 2010.) For FY 2011, the General Assembly passed legislation to reinstitute the hospital licensing fee but at a rate of 5.465 percent applied to each hospital's fiscal year 2009 net patient revenues. The payment of the FY 2011 hospital licensing fee occurred in July 2011 and was accrued back to FY 2011.

In addition, the 2010 General Assembly enacted legislation to increase a variety of fees administered by the Division of Motor Vehicles and the Department of Public Safety. The Division of Motor Vehicles fees that were changed by the 2010 General Assembly were: motor vehicles dealers' license fees which increased from $100.00 to $300.00; motor vehicles manufacturers and distributors fees which increased from $200.00 to $300.00; and motor vehicles factory representative fees which increased from $40.00 to $100.00. Furthermore, the Division of Motor Vehicles established a new fee for a flashing light permit that was set at $25.00. The Department of Public Safety's accident report fee increased from $10.00 to $25.00.

During the 2010 Session, the General Assembly passed legislation to modify the collection of the State's 911 access fee on prepaid wireless telecommunications services. Under prior law, the Emergency 911 Telecommunications Access fee of $1.00 per month was assessed on all wireless telecommunications service users, however, prepaid wireless telephone users paid the fee only at the time the wireless device was purchased. The new law assesses a fee of 2.5 percent per retail transaction for prepaid wireless telecommunications services.

In the 2011 Session, the General Assembly passed legislation to reinstitute the hospital licensing fee at a rate of 5.430 percent applied to each hospital's fiscal year 2010 net patient revenues. The payment of the FY 2012 hospital licensing fee occurred in July 2012 and was accrued back to FY 2012.

Additionally, the Governor proposed and the General Assembly passed legislation in the 2011 Session to increase two fees administered by the Department of Business Regulation. The license fee for securities sales representatives increased by $15.00 from $60.00 to $75.00 and the fees assessed on federal covered advisors increased by $50.00 from $250.00 to $300.00.

Further, the General Assembly adopted the Governor's proposal in 2011 to increase both the estate tax filing fee and the letter of good standing fee from $25.00 to $50.00. As a result, a revenue increase of $231,840 is anticipated for FY 2012. In addition, the General Assembly concurred with the Governor's proposal to apply a $25.00 surcharge to non-sufficient fund checks written to the Division of Motor Vehicles. This new fee is expected to generate revenues of $18,720 in FY 2012. Also during the 2011 Session of the General Assembly, the Department of Environmental Management increased parking fees at State beaches.

The 2011 Session also saw the General Assembly concur with the Governor's proposal to institute a $10.00 surcharge for conducting application clearances for (1) individuals seeking employment in licensed residential and child day care programs, (2) child caregivers, (3) individuals applying to adopt children, and (4) for intra-state requests for child welfare history.

Finally, the General Assembly adopted in the 2011 Session the Governor's proposal to apply a 4.0 percent surcharge on the three compassion centers that are authorized to provide medical marijuana within Rhode Island.

In the 2012 Session, the General Assembly passed legislation to reinstitute the hospital licensing fee at a rate of 5.350 percent of 2011 net patient revenues. The hospital licensing fee rate of 5.350 percent is discounted by 37.0 percent "for all hospitals located in Washington County, Rhode Island" subject to the approval of the Centers for Medicare and Medicaid Services. The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.3705 percent. The total impact of the change in the rate and the base is to decrease the amount collected from the hospital licensing fee to $141.3 million in FY 2013. The payment of the FY 2013 hospital licensing fee will occur in July 2013.

Additionally in the 2012 Session, the General Assembly and the Governor signed into law a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that compassion centers can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by compassion centers. Although state law currently allows compassion centers to sell medical marijuana, no compassion center licenses have been issued primarily due to objections from the U.S. Attorney. The new legislation may make it possible for said licenses to be issued and, since the net patient revenues of medical marijuana dispensaries are subject to a 4.0 percent surcharge, it is estimated that licenses and fees revenues will increase by $512,004 in FY 2013 from the operation of compassion centers in the state.

In the 2012 Session, the Governor proposed and the 2012 General Assembly enacted legislation to expand the definition of beverage containers that are subject to the state's $0.04 per case litter control permit fee. The new law now includes all beverage containers that contain non alcoholic drinks for human consumption, except milk but including beer and other malt beverages. It is expected that FY 2013 licenses and fees will increase by $186,075 as a result of this change in the definition of beverage container.

Furthermore in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to eliminate the Rhode Island Department of Environmental Management's municipal wastewater treatment testing program. Currently municipalities are charged a fee depending on the amount of pollutant discharge. It is anticipated that FY 2013 licenses and fees revenues will decrease by $65,987 from the discontinuation of this program.

Finally in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to restructure the licenses and fees administered by the Rhode Island Department of Health (DOH) into a single fee schedule. DOH proposed to increase, decrease, and implement new fees across a wide range of health professions. The single fee schedule was created to align with the wages and salaries reported by the Rhode Island Department of Labor and Training for these professions. It is estimated that FY 2013 licenses and fees revenues will increase by $1.8 million as a result of the implementation of the single fee schedule in DOH.

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.

The 2010 General Assembly passed legislation to reclassify non-Medicaid hospital payments received by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (formerly the Department of Mental Health, Retardation, and Hospitals) as restricted receipts for FY 2010.

The 2011 General Assembly accepted the Governor's proposal to allow the Division of Taxation to act as a collection agency on the behalf of other state and municipal agencies. State law allows the Division of Taxation to retain a percentage of the revenues collected to offset its cost of engaging in such collection activity. These revenues, when retained, will be recorded as sales and service receipts.

A third category of departmental receipts is fines and penalties, such as interest and penalties on overdue taxes.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 fines and penalties departmental receipts by $2.8 million in interest on overdue taxes.

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances, as well as Child Support payments.

In the 2009 Session, the General Assembly increased miscellaneous departmental revenues by including the revenue from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and from a grant by the American Cancer Society (ACS). The NCA grant will support a statewide chronic disease self-management program for adults 60 and over and the ACS grant will support women's cancer screening activities.

The 2010 General Assembly enacted legislation to reclassify the payments received from local education authorities for the state administered student transportation initiative from miscellaneous departmental receipts to a restricted receipt account for FY 2010 and FY 2011. The 2010 General Assembly passed legislation to subject the telecommunication education access fund to the indirect cost recovery charge. Finally, the General Assembly accepted monies from a non-government entity to continue women's cancer screenings until June 30, 2010.

In the 2011 Session, the General Assembly proposed and the Governor approved for FY 2011 a grant by the Hospital Association of Rhode Island for the Department of Health's cancer registries research. In addition, the 2011 General Assembly enacted legislation to classify the Urban Institute's "Work Support Strategies" grant to the Department of Human Services as general revenue. This grant is designed to help improve the provision of services to low-income working families.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. The 2012 tax amnesty is expected to increase FY 2013 miscellaneous departmental receipts by $47,348 in the state's share of the 5.0 percent state occupancy tax..

Additionally in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to eliminate the Rhode Island Department of Environmental Management's well drilling program. Currently the RI DEM administers the program through the Well Drilling Rules and Regulations for Drinking Water Wells. Well drillers are licensed by RI DEM and are required to submit will drilling logs and install wells in accordance with the regulations. Currently the department charges $100.00 per registration per year for the installer. Elimination of this program resulted in the foregoing of this revenue. It is expected that FY 2013 miscellaneous departmental receipts will decrease by $9,695 from the discontinuation of this program.

Finally in the 2012 session, the General Assembly added the Rhode Island Department of Administration's Regional Greenhouse Gas Initiative restricted receipt account to the list of restricted receipt accounts that are subject to the State's 10.0 percent indirect cost recovery surcharge. As a result, it is estimated that FY 2013 miscellaneous departmental receipts revenues will increase by $470,000.

Departmental receipts revenues were $339.5 million of the State's preliminary FY 2012 total general revenues of $3.270 billion. Preliminary FY 2012 departmental receipts increased on a nominal basis but decreased as a share of total general revenues when compared to final audited FY 2011 revenues.

Other Sources. The largest component of Other Sources is the transfer from the Rhode Island Lottery. The State Lottery Fund was created in 1974 for the receipt and disbursement of revenues of the State Lottery 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 Lottery 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 the Division of State Lottery 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 Twin River (the former Lincoln Park) and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River freezes the retailers share of NTI from existing terminals at 28.85 percent and from additional video lottery terminals at 26.0 percent (which rates are subject to certain adjustments based on the Consumer Price Index in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26.0 percent.

In the 2008 session, the General Assembly passed legislation to allow the State's two gaming facilities, Twin River and Newport Grand, to operate 24 hours a day, three days a week on weekends (24/3) at each facility's discretion. The State's proceeds from 24/3 operations were deposited into the Permanent School Fund and dispersed to the cities and towns to support education. The provision for the distribution of revenue from 24/3 gaming to the Permanent School Fund expired on June 30, 2009.

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. On or about June 23, 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island (Case No. 09-12418). The filing was made when – after months of discussions and negotiations – the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which was eventually approved by the Bankruptcy Court with modifications in November 2010 and paved the way for the Debtors to emerge from bankruptcy. The consensual plan provided, among other things, that the lenders remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders have become the new owners of the facility and are searching for a new operator for the facility to replace the Debtors.

Although the reorganization plan approved by the Bankruptcy Court provides for the State to make additional investments in the marketing and management for the facility, the bankruptcy did not have a significant impact on the lottery revenues the State receives from the facility since Twin River continued to remain open as usual during the bankruptcy. Legislation was introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the Debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The legislation eliminating dog racing at the facility became law on May 14, 2010. The legislation authorizing the changes necessary to achieve certain requirements of the restructuring became law on May 26, 2010.

The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity. The Department of Revenue, Division of State Lottery and the Department of Business Regulation ("Department") continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility needs regulatory approval. After a public hearing on September 29, 2010, a hearing officer for the Department issued a written decision on October 15, 2010 recommending to the Director of the Department, inter alia, that the application filed with the Department on December 14, 2009 by UTGR, Inc., which application was thereafter amended on June 23 and August 24, 2010, seeking approval from the Department for a change in ownership and approval of the management structure of UTGR be approved. The Director adopted the recommendations of the hearing officer on October 18, 2010. Thereafter, on or about November 4, 2010 the Division of State Lottery issued a video lottery license and a retail sales license to UTGR, Inc. and the State, through the Division of Lottery, entered into a First Amendment to the Master Contract with UTGR, Inc.

On or about May 23, 2011 a motion was filed in the Bankruptcy Court by the reorganized debtors seeking an order granting a final decree closing the Chapter 11 cases. The debtors have asked that the motion be granted without a hearing. The U.S. Trustee has consented to the entry of the final decree. On or about June 28, 2011, the federal bankruptcy judge issued an Order indicating he would temporarily withhold entry of the Final Decree and not rule on pending matters until the Debtors provided the court with additional information on or before July 31, 2011 with respect to certain issues that came up while the General Assembly was considering whether or not to allow table and casino-style gaming at the Twin River facility. The Debtors provided the Court with its response, additional comments and information on or before July 31, 2011. On September 29, 2011, the Court issued a Decision and Order approving the debtors' Motion for Entry of Final Judgment and the Final Application for Fees and Expenses.

The 2010 General Assembly enacted legislation that amended the master video lottery terminal contracts for Twin River and Newport Grand. The amendments reduced the employment levels that each facility must have in order to extend the term of the contract, provide for promotional points programs, institutes a marketing program for each facility to be operated jointly with the Division of State Lottery, decreases the State percentage of the net terminal income generated at Newport Grand, and increases the Town of Lincoln's share of the net terminal income generated at Twin River for weeks when Twin River is open 24 hours. Twin River has been operating on a 24 hours a day, seven days a week basis since November 2009. The enhanced payment to the Town of Lincoln expired on June 30, 2011.

In the 2011 Session, the General Assembly enacted legislation to enhance the Town of Lincoln's share of Twin River's net terminal income for those weeks in which Twin River operates on a 24 hour basis. The enhancement in the share of net terminal income going to the Town of Lincoln reduced the State's share of Twin River's NTI on a dollar-for-dollar basis. The enhanced payment to the Town of Lincoln expired on June 30, 2012.

In addition, the 2011 General Assembly enacted legislation to restore the funds Newport Grand would have received in FY 2011 and FY 2012 had the facility met the benchmarks set forth in the First Amendment to the Newport Grand Master Video Lottery Contract with regard to the joint marketing program contained therein. The Newport Grand joint marketing program requires the State to share in the cost of marketing Newport Grand's gaming offerings for approved marketing expenses in excess of $560,000. The state pays out of its share of Newport Grand's video lottery terminal net terminal income (NTI) 61.69 percent of the marketing expenses in excess of the $560,000 threshold. Finally, the 2011 General Assembly realized additional savings within the Division of Lottery's operations resulting in an increase of available revenue to be transferred to the State.

While the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River, it should be noted that during the 2011 legislative session, the Rhode Island General Assembly passed Article 25 of the 2012 Appropriations Act which authorizes the expansion of state-operated gaming at the Twin River facility to include "any and all table and casino-style games played with cards, dice or equipment." Such authorization, however, would only be effective if the qualified voters of the State and the qualified electors of the Town of Lincoln approve the expansion of gambling at the facility to include casino gaming. The Act was signed by the Governor and became law on June 30, 2011. The approval of this expansion of gaming at Twin River will be sought in the November 2012 general election. On or about September 28, 2011, the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court seeking, inter alia, a declaratory judgment on the constitutionality of the Act on the grounds that any proposed casino would not be "state-operated as mandated by the Rhode Island Constitution" and the statute "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Superior Court issued a decision holding that the Narragansett Indians had not sustained its burden of proof beyond a reasonable doubt that the law "violates an identifiable aspect of the Rhode Island or United States Constitution" and therefore the court denied their motion for summary judgment. The Narragansett Indians have filed a notice of appeal of that decision with the Rhode Island Superior Court. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

On November 22, 2011, the Governor of Massachusetts signed into law an act that authorizes the establishment of three destination resort casinos and one slot parlor in the Commonwealth. The act allows for one destination resort casino in each of three regions in the state and the slot parlor at one of the existing pari-mutuel facilities in Massachusetts. Each destination resort casino requires a minimum capital investment of $500 million and must include a hotel. Each destination resorts casino must pay to the Commonwealth a licensing fee of $85.0 million and pay taxes at a rate of 25.0 percent on gross gaming revenue. The slot parlor must pay a $25.0 million dollar licensing fee to the Commonwealth, invest $125 million in the refurbishing of the pari-mutuel facility that hosts the slot parlor and pay taxes at a rate of 40.0 percent of gross gaming revenue to the Commonwealth and a rate of 9.0 percent of gross gaming revenue to the Massachusetts Racehorse Development Fund. Finally, each destination resort casino and the slot parlor must pay an annual licensing fee of $600 for each slot machine in operation at a facility.

In the fall of 2011, the State of Rhode Island Department of Revenue's Division of Lotteries commissioned a study by Christiansen Capital Advisors, LLC to determine the impact that the pending expansion of gaming in Massachusetts might have on Rhode Island's gaming industry and the state's revenues. The Christiansen study examined nine different scenarios depending on the location of the three destination resort casinos and the one slot parlor in Massachusetts assuming there were no table games in Rhode Island and then with table games allowed at the Twin River facility. In a likely case scenario examined by Christiansen, by FY 2017, Rhode Island gross gaming revenue was projected to decline by 25.6 percent from FY 2011 levels or approximately $126.3 million if no table games were allowed in Rhode Island. This translates into a potential decrease in state revenue from the video lottery terminals operated at Twin River and Newport Grand of 25.0 percent or approximately $75.2 million. In another likely case scenario examined by Christiansen with Twin River (but not Newport Grand) having table games, the decline in gross gaming revenue between FY 2011 and FY 2017 is projected to be 15.0 percent or approximately $73.9 million with a resultant 19.6 percent decline in state revenue or approximately $59.2 million from the gaming operations at Twin River and Newport Grand. Even if table gaming is authorized at Twin River and/or Newport Grand, it is not anticipated that table gaming in and of itself will avoid a significant decline in the revenues derived by the State from Twin River and Newport Grand as a result of the expansion of gaming into Massachusetts. There is no assurance that any level of revenue projected from table gaming will be achieved or to what degree gaming in Massachusetts will ultimately impact revenues generated at Twin River and Newport Grand from table gaming, if approved, and video lottery terminals in the future.

During the 2012 legislative session, an initiative was introduced in the General Assembly and became law which authorizes the same expansion of gambling at the Newport Grand facility as was approved by the General Assembly for Twin River during the 2011 legislative session. (See above.) That initiative would only be effective if the qualified voters of the State and the qualified electors of the City of Newport approve the expansion of gambling at the Newport Grand facility to include casino gaming. The approval of this expansion of gaming at Newport Grand will be sought in the November 2012 general election.

Also during the 2012 Session, the Rhode Island General Assembly passed two identical bills, 2012 –S 3001 Substitute A and 2012 – H 8213 Substitute A as amended entitled "An Act Relating to Revenue Protection," that were signed into law by the Governor on June 20, 2012. The Revenue Protection Act (i) requires that the Director of the Division of Lotteries promulgate rules and regulations relating to state-operated table gaming on or before March 31, 2013 and set policy for table games; (ii) requires the table game retailer to reimburse and pay the Division of State Lottery for all reasonable costs and expenses associated with the Division's review of the business practices or operations of the table game retailer, including but not limited to, such items as ongoing auditing, legal, investigation services, compulsive and problem gambling programs, and other related matters; and (iii) gives the Director of State Lottery the authority to enforce the provisions of the law and allows for the imposition of administrative penalties of not more than $1,000 for each violation of any rule, regulation, policy or procedure or administrative order with the interest, cost or expense collected appropriated to the Division of State Lottery for administrative purposes.

The law provides, inter alia, (i) effective July 1, 2013, provided that the casino gaming referendum is approved statewide and in the City of Newport, and Newport Grand commences and continues to offer table games, the rate of net terminal income payable to Newport Grand under its Master Contract will increase by one and one half percentage points; (ii) 18.0 percent of the Net Table Game Revenue derived from Table Games at Twin River as defined in the law, is to be deposited into the state lottery fund for administrative purposes with the balance remaining going into the general fund with that percentage being reduced to 16.0 percent on the first date that Twin

River's net terminal income for a full State fiscal year is less than Twin River's net terminal income for the prior State fiscal year and (iii) 18.0 percent of the net table game revenue derived from table games at Newport Grand is to be deposited into the state lottery fund for administrative purposed with the balance remaining going into the general fund. At this time, even with the passage of the casino gaming referendum statewide and in the City of Newport and the Town of Lincoln, the actual conduct of table games at Twin River and/or Newport Grand is not expected to commence before July 1, 2013.

Furthermore, the Revenue Protection Act authorizes a supplementary promotional points program at Twin River and Newport Grand in addition to the initial promotional points program; however, the supplementary promotional points program is subject to terms and conditions established by the Division of State Lottery and cannot exceed 6.0 percent of Twin River's and/or 6.0 percent of Newport Grand's net terminal income of the prior marketing year i.e. the total of the initial promotional points program and the supplementary promotional points program for Twin River cannot exceed 10.0 percent of the amount of Twin River's net terminal income of the prior marketing year and with respect to Newport Grand, cannot exceed 10.0 percent of the amount of Newport Grand's net terminal income of the prior marketing year. The prior marketing year is the prior state fiscal year. The terms of the supplementary promotional points program are to be included in Third Amendments to Twin River's and Newport Grand's Master Contracts with the Division of State Lottery.

The General Assembly once again enacted, in the 2012 Session, legislation to enhance the Town of Lincoln's share of Twin River's net terminal income for those weeks in which Twin River operates on a 24 hour basis. The enhancement in the share of net terminal income going to the Town of Lincoln reduces the State's share of Twin River's NTI on a dollar-for-dollar basis. As a result, a revenue decrease of $953,847 is anticipated for FY 2012. The enhanced payment to the Town of Lincoln expired on June 30, 2012.

The lottery transfer to the General Fund totaled $377.7 million which accounted for 11.5 percent of the State's preliminary total general revenues in FY 2012. The dollar amount of the lottery transfer to the General Fund and its share of total general revenues increased between preliminary FY 2012 and audited FY 2011.

The next largest component of Other Sources is the other miscellaneous revenues category. This category reflects among other things, non-recurring receipts that are not recorded in other receipt categories, such as one-time receipts from the securitization of tobacco master settlement agreement payments and the sale of state-owned property.

In the 2009 Session, the General Assembly passed legislation to transfer funds from the Dual Party Telecommunications Device for the Deaf (TDD) Phone Relay Service Escrow Account to the general fund by June 30, 2009. The resources are from a monthly surcharge of $0.09 for each landline telephone in the State and used to support communication access to the deaf population. In addition, the 2009 General Assembly enacted legislation to transfer excess deposits from a worker's compensation escrow account for companies with defunct operations in the State as well as the rebate incentives the State receives from the use of purchase cards.

The 2009 General Assembly also enacted legislation to transfer a portion of the excess reserves of the Rhode Island Health and Educational Building Corporation. In addition, the General Assembly transferred excess reserves from the Rhode Island Human Resources Investment Council. These two transfers were available as general revenues to be used to finance FY 2010 state operations.

In the 2010 Session, the General Assembly passed legislation to transfer excess reserves from the State's automobile replacement fund. In addition, the General Assembly also transferred additional excess reserves from the Rhode Island Health and Educational Building Corporation (RIHEBC).

In the 2011 Session, the General Assembly concurred with the Governor's proposal to transfer excess reserves from the Rhode Island Resource Recovery Corporation to the state's general fund. Additionally, the General Assembly passed and the Governor signed into law the designation of revenue from land sales received in FY 2012 to the information technology revolving fund, a restricted receipt account.

In the 2012 Session, the General Assembly enacted and the Governor concurred to accept a grant from Neighborhood Health Plan of Rhode Island for dental care for low income adults. The amount of the grant is $1.8 million and its receipt is to be realized in FY 2013.

The total amount of other miscellaneous revenues received in FY 2012 was approximately $20.1 million, which accounted for 0.6 percent of the State's preliminary total general revenues. For FY 2011, these amounts were $11.1 million and 0.4 percent, respectively.

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.

In the 2007 Session, the General Assembly enacted legislation explicitly including agents hired for the express purpose of auditing, assessing and collecting unclaimed property as designees of the General Treasurer, thereby allowing the utilization of auditors from other State departments to assist with unclaimed property processing.

The unclaimed property transfer totaled $14.6 million in FY 2012 and accounted for 0.4 percent of the State's FY 2012 preliminary total general revenues. The dollar amount of the unclaimed property transfer increased as did its share of total general revenues between FY 2012 and FY 2011.

Restricted Receipts. In FY 2012, the State expended $177.6 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 2012, the State expended $2.597 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), and a block grant for Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX, known as the Federal Medical Assistance Percentage (FMAP), is recalculated annually. The major determinant in the FMAP rate calculation is the relative per capita income of the State. The provisions of ARRA included a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.92 from October 1, 2009 through September 30, 2010. The ARRA-enhanced FMAP for the second quarter of FY 2011 was 64.22. The FMAP enhancement provisions of ARRA were partially continued by Public Law 111-226, the Education Jobs and Medicaid Assistance Act, which resulted in enhanced FMAPs of 61.39 and 59.51 for the third and fourth quarters of FY 2011, respectively. Statutory enhancements of the FMAP ceased on July 1, 2011, at which time the FMAP for Rhode Island reverted to the base level of 52.97 percent for one quarter. From October 1, 2011 through September 30, 2012, the state's prevailing FMAP was 52.12 percent. For the following federal fiscal year, FFY 2013, Rhode Island's FMAP decreased to 51.26 percent, necessitating additional FY 2013 general revenue appropriations of approximately $9.6 million.

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" (Rhode Island General Law § 35-16-5(e)).

On May 4, 2012, the Conferees heard updated economic forecasts for the nation and the State, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. According to Moody's Economy.com, the improvement in the U.S. labor market has been "frustratingly slow" and leaves the U.S. economy in a vulnerable place. The country needs to add a minimum of 125,000 jobs per month to maintain the current unemployment rate. However, the U.S. labor market's slow recovery is the result of weakening business and consumer confidence. The May 2012 Revenue Estimating Conference's principals adopted through a consensus process an economic forecast for the period 2012 through 2017. The forecast is shown below.

On February 29, 2012, the U.S. Bureau of Labor Statistics (BLS) released benchmark revisions on labor force statistics, including data on the size of the labor force and the unemployment rate for all 50 states. Rhode Island's 2011 unemployment rate was 11.3 percent, down from 11.7 percent in 2010. For August 2012, Rhode Island's seasonally adjusted unemployment rate was 10.7 percent, a decrease of 0.7 percentage points from August 2011.

The unemployment rate for FY 2012 is estimated at 11.1 percent a decrease of 0.3 percentage points from FY 2011's rate of 11.4 percent. As recovery takes hold, Rhode Island's unemployment rate is expected to decline to 10.3 percent in FY 2013 and then accelerate its downward trend until it hits 5.1 percent in FY 2017. Even at this lower rate, Rhode Island's unemployment rate will be 0.1 percentage points higher than the unemployment rate achieved when the economy peaked in FY 2007.

As reported at the May 2012 Revenue Estimating Conference, Rhode Island's labor market has reached a cyclical bottom and initial unemployment levels have begun to decrease. The Rhode Island Department of Labor and Training reported that for March 2012, the unemployment rate was 11.1 percent, the second highest in the nation, lagging the U.S. unemployment rate of 8.2 percent. In March 2012, there was a year-over-year decrease of 1,100 unemployed Rhode Islanders. In addition, Rhode Island non-farm employment for March 2012 decreased by 2,200 compared to March 2011. The sector breakdown of these job losses were as follows: Government, -1,000; Other Services, -800; Leisure and Hospitality, -700; Construction, -500; Trade, Transportation and Utilities, -300; and Financial Activities, -200. These decreases were offset by a gain in employment year-over-year in March 2012 within the following sectors: Information, 500; Educational and Health Services, 400; Manufacturing, 300; and Natural Resource and Mining, 100. Although the Bureau of Labor Statistics (BLS) reported net job loses of 2,200 on a year-over-year basis, the Rhode Island Department of Labor and Training estimates that the BLS will revise the net job loss upward to reflect net job losses of only 600 in March 2012 compared to March 2011.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of a state's economy. In FY 2010, total non-farm employment declined by 2.7 percent. In FY 2011, non-farm employment increased by 0.5 percent, the first year of positive growth since FY 2007. In FY 2012, according to the most recent data provided by the U.S. Bureau of Labor Statistics, Rhode Island total non-farm employment decreased by 0.3 percent. The consensus economic forecast adopted at the May 2012 Revenue Estimating Conference projects Rhode Island total non-farm employment to rise 0.9 percent in FY 2013 The principals of the May 2012 Revenue Estimating Conference anticipate an increase of 4,130 jobs in non-farm employment for FY 2013 and an increase of 8,149 jobs in FY 2014. Over the FY 2015 through FY 2017 period, Rhode Island's economy is expected to add 35,502 jobs. It should be noted that while adopted growth rates indicate a positive trend from FY 2013 through FY 2017, the adopted estimates for total non-farm employment during these years are below those adopted for the FY 2013 to FY 2017 period at the November 2011 Revenue Estimating Conference.

Based on the consensus economic forecast adopted at the May 2012 Revenue Estimating Conference, personal income growth is expected to be 4.0 percent in FY 2012, down from 4.7 percent growth in FY 2011. The adopted estimates for personal income growth suggest a positive upward trend from FY 2013 through FY 2015. It should be noted that for FY 2013 the May 2012 adopted estimate for personal income growth is below the growth estimate adopted at the November 2011 Revenue Estimating Conference. The FY 2013 projected growth rate for personal income adopted at the May 2012 REC is 3.9 percent down from the 4.1 percent growth rate that was adopted at the November 2011 REC. For FY 2014 and FY 2015 the adopted May 2012 personal income growth estimate is 4.9 percent and 6.1 respectively, up from the 4.1 percent and 4.9 percent growth rates adopted in November 2011 for the same periods. The personal income growth rate is expected to decrease to 5.1 percent in FY 2016 and decrease again to 4.6 percent in FY 2017. This projection indicates that personal income growth will take one more year to accelerate than originally projected in November 2011 but that once personal income growth does accelerate the rate of growth will be higher than originally projected at the November 2011 REC.

Similarly, FY 2012 adopted estimates of dividends, interest and rents are expected to decrease to 3.8 percent from FY 2011 growth of 7.3 percent before bouncing back considerably in FY 2013 through FY 2017, reaching peak growth in FY 2015 of 9.9 percent. May 2012 adopted wage and salary income growth is forecasted to increase from FY 2012 to FY 2017 relative to the projected growth adopted in November 2011. Wage and salary income growth is expected to improve beginning in FY 2012 with projected growth of 4.7 percent an increase of 1.5 percentage points from FY 2011. The rate of growth remains constant in FY 2013 at 4.7 percent and then accelerates in FY 2014 to 5.5 percent and increases again in FY 2015 and FY 2016 to 5.9 percent and 6.1 percent, respectively, before decelerating in FY 2017 to 5.0 percent.

According to the most recent data provided by the U.S. Bureau of Labor Statistics, the FY 2012 U.S. rate of inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased to 2.9 percent in FY 2012 from 2.0 percent in FY 2011. The increase is mainly due to the increase in gasoline, fuel oil and natural gas prices combined with the expectation of quantitative easing from the Federal Reserve. The rate of growth in CPI-U adopted at the May 2012 Revenue Estimating Conference is forecast to decrease in FY 2013 to 1.8 percent before rising to 2.3 percent and 2.9 percent in FY 2014 and FY 2015 respectively. In FY 2016 and FY 2017, inflation is projected to decelerate and settle at 2.3 percent.

According to the most recent data provided by the Board of Governors of the Federal Reserve System , the interest rate on three month Treasury bills decreased to 0.05 percent in FY 2012 from 0.1 percent in FY 2011. Based on the consensus economic forecast adopted in May 2012, the interest rate on three month Treasury bills is expected to remain low with rates below 0.1 percent in FY 2013 before increasing to 0.5 percent in FY 2014. In FY 2015, the interest rate on three month Treasury bills is expected to rise to 1.8 percent and increase again to approximately 3.1 percent in FY 2016 before stabilizing at 3.5 percent in FY 2017. According to the most recent data provided by the Board of Governors of the Federal Reserve System, the interest rate on ten year Treasury notes decreased to 2.1 percent in FY 2012 from 3.1 percent in FY 2011. Based on the consensus economic forecast adopted in May 2012, the interest rate on ten year Treasury notes is anticipated to rise substantially to 4.2 percent in FY 2014 before leveling off at 4.7 percent in FY 2015 and FY 2016. The interest rate on ten year Treasury notes is projected to increase slightly to 4.9 percent in FY 2017.

Consistent with the perspective discussed here, the May 2012 consensus economic forecast reflects initial stages of recovery from the nation's economic crisis in employment, income, and other coincidental economic indicators beginning in FY 2013. FY 2012 showed a slowing in economic momentum in Rhode Island's economy consistent with that of the national economy. In particular, weak business and consumer confidence undermined the sustainability of the U.S. recovery. Employment growth is expected to remain positive in FY 2013 through FY 2017 with more rigorous employment growth expected in FY 2015 and FY 2016 before the rate of growth declines to more long-run equilibrium levels in FY 2017. Personal income growth is expected to reach its peak in FY 2015 and follow a pattern similar to that of employment growth over the remaining forecast period.

The consensus economic forecast for the fiscal years 2012 through 2017 agreed upon by the conferees at the May 2012 Revenue Estimating Conference is shown in the following table.

May 2012 Consensus Economic Forecast*						
Rates of Growth	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Non-Farm Employment	-0.3	0.9	1.8	2.9	2.9	1.5
Personal Income	4.0	3.9	4.9	6.1	5.6	4.6
Wage and Salary Income	4.7	4.7	5.5	5.9	6.1	5.0
Dividends, Interest and Rent	3.8	4.2	7.5	9.9	7.9	5.1
Nominal Rates						
U.S. CPI-U	2.9	1.8	2.3	2.9	2.6	2.3
Unemployment Rate	11.1	10.3	9.4	7.5	6.2	5.4
Ten Year Treasury Notes	2.1	3.0	4.2	4.7	4.7	4.9
Three Month Treasury Bills	0.05	0.1	0.5	1.8	3.1	3.5

* FY 2012 figures for non-farm employment, U.S. CPI-U, the unemployment rate, ten year Treasury notes and three month Treasury bills are actual data calculated by the State of Rhode Island. All other figures are estimates that were adopted at the May 2012 Revenue Estimating Conference.

According to the May 2012 report from Moody's Economy.com and testimony at the May 2012 Revenue Estimating Conference, the national economy was experiencing "sturdy growth" and the expansion is resulting in enough new jobs to offset losses and consequently a lower unemployment rate. The economic data will soften a bit with the effects of higher gasoline prices, but the fundamentals are becoming more stable.

Also according to Moody's Economy.com, the Rhode Island economy has bottomed, and the state remains in a restrained recovery. Employment growth has been uneven with large gains and losses in multiple sectors, but the jobs data are likely to be revised upward. The unemployment rate, nearly the highest in the nation, is decreasing, but will not drop back to pre-recession levels until FY 2016 or beyond.

Nonfarm employment reached it low point in 2010, with 34,100 job losses from peak to trough. The May 2012 forecast is that those job losses will not be regained until 2015, an eight year peak to peak cycle. The Rhode Island Department of Labor and Training (DLT) reported there were 2,200 fewer Rhode Island jobs in March 2012 than in March 2011, and 5,200 fewer Rhode Island residents working in March 2012 than in March 2011. DLT does, however, expect job figures to be revised upwards in the coming months.

May 2012 adopted FY 2012 and FY 2013 wage and salary income growth is projected to be 4.7 percent . This is 1.9 percent and 1.0 percent higher than the forecasts adopted in November 2011. By contrast, wage and salary growth was negative in both FY 2009 and FY 2010. The May 2012 revisions to the November 2011 economic forecast are mixed, reflecting a somewhat more optimistic outlook on income growth, but fewer jobs. Testimony from Moody's Analytics suggested that Rhode Islanders were commuting to employment opportunities nearby, but outside of the state, partially explaining why income would be growing while employment figures were decreasing.

GENERAL REVENUES

FY 2012 Preliminary Revenues

Preliminary Fiscal Year 2012 total general revenues increased by 6.0 percent as compared to audited Fiscal Year 2011 total general revenues. For preliminary FY 2012, total general revenues were $3.270 billion as compared to $3.084 billion for audited FY 2011, an increase of $186.5 million. Final enacted FY 2012 total general revenues were estimated at $3.257 billion; a growth rate of 5.6 percent over audited FY 2011 total general revenues. Preliminary FY 2012 total general revenues were $12.9 million, or 0.4 percent, more than the final enacted FY 2012 estimate.

Preliminary FY 2012 taxes and departmental receipts have increased by 5.5ercent as compared to audited FY 2011 taxes and departmental receipts. For preliminary FY 2012, total taxes and departmental receipts were

$2.858 billion as compared to $2.710 billion for FY 2011, an increase of $147.8 million. Final enacted FY 2012 taxes and departmental receipts were estimated at $2.848 billion; a growth rate of 5.1 percent over audited FY 2011 taxes and departmental receipts. FY 2012 preliminary actual taxes and departmental receipts were $9.8 million, or 0.3 percent, more than the final enacted FY 2012 estimate.

Preliminary FY 2012 other general revenue source revenues have increased by 10.4 percent as compared to audited Fiscal Year 2011 amounts. For preliminary FY 2012, total other general source revenues were $412.4 million as compared to $373.6 million for audited FY 2011, an increase of $38.8 million. The growth rate enacted in the final FY 2012 budget was 9.6 percent. Preliminary FY 2012 other general revenue source revenues were $3.1 million, or 0.8 percent, more than the final enacted FY 2012 estimate of $409.3 million.

Total tax revenues for preliminary FY 2012 were $2.518 billion or 5.9 percent more than the $2.377 billion in total tax revenues received in FY 2011. In nominal terms, FY 2012 preliminary total taxes exceeded final FY 2011 total taxes by $141.0 million. The FY 2012 final growth estimate for total taxes, enacted by the General Assembly, was 5.3 percent over audited FY 2011 total tax revenues. The preliminary FY 2012 actual revenues were $14.8 million more than the final enacted estimate.

Personal income tax receipts for preliminary FY 2012 are up $39.5 million, or 3.9 percent, compared to audited FY 2011 personal income tax receipts. The General Assembly's final enacted FY 2012 estimate for personal income tax revenues was $1.046 billion, or growth of 2.4 percent from audited FY 2011 personal income tax receipts. FY 2012 preliminary personal income tax revenues are $14.7 million, or 1.4 percent, more than the final enacted FY 2012 budget estimate. Preliminary FY 2012 personal income tax revenues totaled $1.061 billion.

Rhode Island business corporations tax revenues are comprised of corporate income taxes, and taxes on nonresident contractors and political organizations. Preliminary FY 2012 business corporations tax revenues were up $38.7 million, or 45.8 percent, from audited FY 2011 business corporations tax revenues. This growth rate lags the final enacted FY 2012 growth rate estimate of 55.7 percent. The final enacted FY 2012 estimate for business corporations tax revenues was $131.6 million, or $8.4 million more than preliminary FY 2012 actual revenues.

Public utilities gross earnings tax revenues are down 3.0 percent, or $3.1 million, for preliminary FY 2012 as compared to audited FY 2011 public utilities gross earnings tax revenues. This growth rate leads the final enacted FY 2012 growth rate estimate of -5.2 percent. The final enacted FY 2012 estimate for public utilities gross earnings tax revenues was $98.3 million, $2.3 million lower than preliminary FY 2012 receipts for public utilities gross earnings taxes of $100.6 million.

Preliminary FY 2012 financial institution tax revenues were $1.1 million higher than the $2.5 million in audited FY 2011 financial institutions tax revenues. Preliminary FY 2012 financial institutions tax revenues totaled $3.6 million or 44.7 percent more than final FY 2011 financial institutions tax revenues. The enacted growth rate estimate for FY 2012 was 1.6 percent.

Insurance companies gross premiums tax revenues increased by $28.9 million or 47.7 percent, in preliminary FY 2012 as compared to audited FY 2011 insurance companies gross premiums tax revenues. This growth rate is higher than the FY 2012 growth rate estimate of 46.9 percent enacted by the General Assembly in June. The final enacted FY 2012 estimate for insurance companies gross premiums tax revenues was $89.0 million, or $509,870 lower than preliminary FY 2012 receipts.

Preliminary FY 2012 bank deposit tax revenues of $2.0 million are up $33,357, or 1.7 percent, over audited FY 2011 bank deposit tax revenues. This growth rate is lower than the FY 2012 growth rate estimate of 6.7 percent enacted by the General Assembly. The final enacted FY 2012 estimate for bank deposits tax revenues was $2.1 million or $99,355 above preliminary FY 2012 receipts.

Sales and use tax revenues for preliminary FY 2012 are up $37.4 million, or 4.6 percent, relative to audited FY 2011 sales and use tax receipts. The preliminary FY 2012 growth rate for sales and use tax revenues exceeds the final enacted FY 2012 growth rate estimate of 4.1 percent over audited FY 2011 sales and use tax revenues. The General Assembly's final enacted FY 2012 estimate for sales and use tax revenues was $846.0 million or $4.4 million less then preliminary FY 2012 receipts. Preliminary FY 2012 sales and use tax revenues totaled $850.4 million.

Preliminary FY 2012 motor vehicle license and registration fee revenues are up $737,030 or 1.5 percent from audited FY 2011 motor vehicle license and registration fee revenues. This growth rate exceeds the final FY 2012 enacted growth rate estimate of 0.1 percent. The final enacted FY 2012 estimate for motor vehicle license and registration fee revenues was $47.7 million, or $691,564 less than preliminary FY 2012 revenues. Preliminary FY 2012 motor vehicle license and registration fee revenues totaled $48.4 million.

Preliminary FY 2012 motor carrier fuel use tax revenues are down $322,267 or -30.5 percent from audited FY 2011 motor carrier fuel use tax revenues. Motor carrier fuel use taxes are paid by commercial truckers for the use of Rhode Island's highways. The growth rate for preliminary FY 2012 motor carrier fuel use tax revenues is lower than the final enacted FY 2012 growth rate estimate of -5.2 percent. The final enacted FY 2012 estimate for motor carrier fuel use tax revenues was $1.0 million. Preliminary FY 2012 revenues for motor carrier fuel use taxes totaled $732,672, or $267,328 less than enacted.

Cigarettes tax receipts, including other tobacco products and any cigarette floor stock taxes, decreased by 2.2 percent, or $3.0 million, in preliminary FY 2012 as compared to audited FY 2011 cigarettes tax revenues. The FY 2012 preliminary rate of growth is lower than the FY 2012 enacted rate of growth of -0.3 percent over audited FY 2011 cigarettes tax revenues included in the final budget signed by Governor Chafee on June 15, 2012. The preliminary FY 2012 revenues for cigarettes taxes totaled $2.5 million less than the FY 2012 enacted estimate of $133.6 million.

Preliminary FY 2012 alcohol excise tax revenues are up $190,587 or 1.6 percent from audited FY 2011 alcohol excise tax revenues of $11.7 million. The FY 2012 preliminary growth rate is lower than the final enacted FY 2012 growth rate estimate of 2.7 percent. The final enacted FY 2012 estimate for alcohol excise tax revenues was $12.0 million as compared to preliminary FY 2012 revenues for alcohol excise taxes of $11.9 million, which was $126,354 less than enacted.

Inheritance tax revenues for preliminary FY 2012 are $443,415 less than audited FY 2011 inheritance tax revenues, a decrease of 0.9 percent. The FY 2012 preliminary growth rate leads the final enacted FY 2012 growth rate estimate of -4.4 percent. The final enacted FY 2012 estimate for inheritance tax revenues was $44.8 million or $1.6 million less than preliminary FY 2012 revenues of $46.4 million.

Preliminary FY 2012 racing and athletics tax revenues are up $1,810, or 0.1 percent, from audited FY 2011 racing and athletics tax revenues of $1.325 million. The preliminary FY 2012 growth rate compares to a growth rate estimate of -1.9 percent included in the final enacted FY 2012 budget. The final enacted FY 2012 estimate for racing and athletics tax revenues was $1.3 million. Preliminary FY 2012 revenues for racing and athletics taxes are $27,003, or 2.1 percent, more than the final enacted FY 2012 estimate.

Preliminary FY 2012 realty transfer tax revenues are up $64,033, or 1.0 percent, from audited FY 2011 realty transfer tax revenues of $6.37 million. The FY 2012 preliminary growth rate leads the final enacted FY 2012 growth rate estimate of -7.4 percent. The final enacted FY 2012 estimate for realty transfer tax revenues was $5.9 million. Preliminary FY 2012 realty transfer tax revenues are $534,665, or 9.1 percent, more than the final enacted FY 2012 estimate.

Preliminary FY 2012 departmental receipts totaled $339.5 million, an increase of $6.8 million from the amount that was received in audited FY 2011. Preliminary FY 2012 departmental receipts are up 2.0 percent when compared to FY 2011 audited receipts. The growth rate estimate included in the final enacted FY 2012 budget was 3.5 percent over audited FY 2011 departmental receipt revenues. The final enacted estimate for FY 2012 departmental receipts was $344.5 million or $5.0 million more than preliminary FY 2012 revenues.

Preliminary FY 2012 other miscellaneous revenues are up 80.9 percent, an increase of $9.0 million from audited FY 2011 other miscellaneous revenues. Preliminary FY 2012 other miscellaneous revenues total $20.1 million compared to $11.1 million received in FY 2011. The growth rate estimate for other miscellaneous revenues included in the final enacted FY 2012 budget was 51.1 percent over audited FY 2011 other miscellaneous revenues. Preliminary FY 2012 other miscellaneous revenues were $3.3 million higher than the final enacted FY 2012 estimate of $16.8 million.

The lottery transfer to the general fund is up 6.4 percent, or $22.8 million, in preliminary FY 2012 as compared to the audited FY 2011 lottery transfer. The final enacted FY 2012 growth rate estimate for the lottery transfer was 6.7 percent over the audited FY 2011 lottery transfer. The preliminary FY 2012 lottery transfer was $377.7 million or $793,606 less than the final enacted FY 2012 estimate of $378.5 million.

The preliminary FY 2012 unclaimed property transfer totals $14.6 million, an increase of $6.9 million from the unclaimed property transfer received in FY 2011. The unclaimed property transfer for preliminary FY 2012 is up 90.5 percent when compared to the audited FY 2011 unclaimed property transfer. The growth rate incorporated in the final enacted FY 2012 budget was 83.2 percent over the audited FY 2011 unclaimed property transfer. The preliminary FY 2012 unclaimed property transfer was $555,573 more than the final enacted FY 2012 estimated unclaimed property transfer of $14.0 million.

FY 2013 Enacted Revenues

The General Assembly's enacted FY 2013 budget estimates general revenues of $3.321 billion, an increase of 1.5 percent from the preliminary FY 2012 level of $3.270 billion. The enacted FY 2013 budget is comprised of $3.147 billion of revenue estimated at the May 2012 Revenue Estimating Conference (REC) and $174.0 million of changes to these adopted estimates. .

The largest source of enacted FY 2013 general revenues is the personal income tax, with estimated receipts of $1.081 billion, an increase of 1.9 percent from preliminary FY 2012 revenues. Enacted FY 2013 personal income tax revenues include the General Assembly's acceptance of two initiatives proposed by the Governor. The first initiative is to discontinue the preparation of personal income tax returns for individual taxpayers at no cost. By discontinuing this service, the Division of Taxation is able to reallocate two Revenue Agent I positions from the Taxpayer Services Section to the Office Audit Section. The Office Audit Section is responsible for conducting taxpayer compliance audits on the personal income tax. The second initiative is the administration of a tax amnesty program for the period September 1, 2012 through November 15, 2012. The purpose of the tax amnesty program is to provide delinquent taxpayers the opportunity to pay taxes that may have become overdue as a result of the Great Recession. The tax amnesty program allows delinquent taxpayers to pay taxes owed without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on taxes owed to the State from 18.0 percent to 13.5 percent). The FY 2013 enacted budget estimates include an increase in personal income tax revenues of $1.3 million and $3.0 million respectively for these two initiatives. Personal income tax receipts are expected to comprise 32.5 percent of enacted total general revenues in FY 2013. The enacted FY 2013 personal income tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against the personal income tax.

Sales and use tax revenues are enacted at a total of $887.6 million in FY 2013, an increase of 4.4 percent from preliminary FY 2012 receipts. Enacted FY 2013 sales and use tax revenues include (1) the General Assembly's partial acceptance of the Governor's proposal to expand the sales tax base; (2) the General Assembly's approval of the Governor's recommended increase in the cigarette tax; (3) the General Assembly's acceptance of the Governor's proposed tax amnesty program; and (4) the off-budget enactment of a modification to the State's laws concerning the operation of compassion centers and the sale of medical marijuana by said compassion centers.

With respect to the broadening of the sales tax base, the General Assembly approved the extension of the State's 7.0 percent sales and use tax, effective October 1, 2012, to (i) pet services providers other than providers of veterinary services and laboratory testing; (ii) taxicabs and other providers of road transportation services; and (iii) items of clothing and footwear that cost more than $250.00 per item. By instituting a threshold amount above which an item of clothing or footwear becomes taxable, the State will no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) causing the State to forego the receipt of sales tax collected by remote sellers that are signatories to the SSUTA. Additionally, the General Assembly also repealed the application of the sales tax to providers of package tours and scenic and sightseeing transportation. The General Assembly had approved the expansion of the sales tax base to include providers of package tours and scenic and sightseeing transportation during the 2011 Session. The FY 2013 enacted revenue estimate includes a net increase in sales and use tax revenues of $8.8 million from the law changes listed above.

Additional sales and use tax revenue increases are included in the FY 2013 enacted budget. In particular, increased sales and use tax revenues of $128,873 are estimated from the increase in the retail price of cigarettes that result from the General Assembly's acceptance of the Governor's proposal to raise the state's cigarette excise tax. Additionally, the FY 2013 enacted sales and use tax estimate includes increased sales and use tax revenue collections of $4.4 million from the General Assembly's acceptance of the tax amnesty program proposed by the Governor. Finally, the General Assembly passed and the Governor signed into law a modification to Rhode Island's compassion center legislation that reduces the amount of medical marijuana that compassion centers can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by compassion centers. Although state law currently allows compassion centers to sell medical marijuana, no compassion center licenses have been issued. The new legislation makes it possible for said licenses to be issued and, since the retail sale of medical marijuana is subject to the State's sales tax, the General Assembly FY 2013 enacted estimate of sales and use taxes includes revenues of $837,996 from these sales. The General Assembly's enacted FY 2013 estimate of sales and use tax revenues are expected to comprise 26.7 percent of enacted total general revenues in FY 2013.

Motor vehicle operator license and vehicle registration fees are enacted at $47.7 million in FY 2013, a decrease of 1.4 percent over preliminary FY 2012 revenues. Motor carrier fuel use taxes are enacted at $1.1 million in FY 2013 an increase of 50.1 percent, or $367,328 over preliminary FY 2012 revenues. Motor vehicle license and fee revenues are projected to make up 1.4 percent of enacted FY 2013 total general revenues while motor carrier fuel use taxes are enacted at less than 1.0 percent of FY 2013 total general revenues.

Cigarettes and other tobacco products tax revenues are expected to total $138.1 million in FY 2013, an increase of 5.3 percent from preliminary FY 2012 revenues. Enacted FY 2013 cigarette and other tobacco products tax revenues include the General Assembly's adoption of the Governor's recommendation to increase the cigarette excise tax stamp rate from $3.46 per pack of 20 cigarettes to $3.50 per pack of 20 cigarettes. Furthermore, the General Assembly concurred with the Governor's proposal to amend the definition of a little cigar to include all non-cigarette tobacco products with an integrated filter that weigh 4.0 pounds or less per 1,000 individual sticks. Under prior law the weight threshold was 3.0 pounds or less per thousand individual sticks. The change in definition for little cigars subjects more non-cigarette tobacco products to the cigarette excise tax of $3.50 per pack of 20 individual sticks rather than the other tobacco products tax of 80.0 percent of the wholesale cost. The FY 2013 enacted budget estimate includes $1.7 million and $2.4 million respectively for these two changes. The General Assembly's enacted FY 2013 estimate also provides for the addition of four Tax Investigator positions in the Division of Taxation to fully staff its tobacco tax enforcement task force. The additional 4.0 full-time equivalent positions were recommended by the Governor in his FY 2013 budget. Enhanced tobacco tax enforcement is estimated to augment cigarette tax revenues by $2.9 million, mainly through increased compliance with existing state tobacco tax laws. The General Assembly's enacted FY 2013 estimate for cigarettes and other tobacco products tax revenue are anticipated to contribute 4.2 percent to total general revenues in FY 2013.

FY 2013 alcohol tax revenues are enacted at $12.2 million, or 2.7 percent more than the preliminary FY 2012 level. Alcohol taxes are anticipated to constitute 0.4 percent of total general revenues in FY 2013.

General business taxes comprise 11.1 percent of total general revenues in the enacted FY 2013 budget. Business corporations tax revenues are enacted at $133.3 million, an increase of 8.1 percent from preliminary FY 2012 revenues. Enacted FY 2013 business corporations tax revenues include $351,413 from the General Assembly's acceptance of the Governor's recommendation for the administration of the tax amnesty program. Business corporations taxes are expected to constitute 4.0 percent of total general revenues in FY 2013. The enacted FY 2013 business corporations tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against business corporations taxes.

The health care provider assessment is enacted at $42.2 million in the General Assembly's FY 2013 budget, an increase of 0.7 percent from preliminary FY 2012 revenues. The FY 2013 enacted health care provider assessment includes $6,533 from the General Assembly's acceptance of the Governor's recommendation for the administration of the tax amnesty program. The FY 2013 enacted health care provider assessment is expected to constitute 1.3 percent of total general revenues in FY 2013

Insurance companies' gross premiums taxes are enacted at a total of $89.8 million in FY 2013, an increase of 0.4 percent from preliminary FY 2012 revenues. The enacted FY 2013 insurance companies' gross premiums taxes include $25,327 from the General Assembly's acceptance of the Governor's recommendation for the administration of the tax amnesty program. Insurance companies' gross premiums taxes are anticipated to comprise 2.7 percent of total enacted general revenues in FY 2013. The enacted FY 2013 insurance companies gross premiums tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against insurance companies gross premiums taxes.

FY 2013 enacted financial institution tax revenues total $1.7 million, or 52.2 percent less than preliminary FY 2012 financial institutions tax revenues. FY 2013 enacted financial institution tax revenues are expected to constitute less than 0.1 percent of total general revenues. The enacted FY 2013 financial institutions tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

FY 2013 enacted bank deposits taxes total $2.1 million and comprise less than 0.1 percent of total enacted general revenues. The enacted FY 2013 estimate for bank deposits taxes is 5.0 percent greater than preliminary FY 2012 revenues.

The General Assembly's enacted FY 2013 public utilities gross earnings tax estimate is 0.5 percent less than preliminary FY 2012 revenues. Enacted FY 2013 public utilities gross earnings tax revenues are estimated at $100.1 million and make up 3.0 percent of total enacted general revenues. The enacted FY 2013 public utilities gross earnings tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against public utilities gross earnings taxes.

The enacted total for other tax revenues for FY 2013 is $42.2 million. This amount is approximately equal to 1.3 percent of total enacted general revenues in FY 2013. Inheritance and gift taxes, the largest component of other tax revenues, are enacted by the General Assembly at $35.1 million for FY 2013, a decrease of 24.3 percent from preliminary FY 2012 revenues. The decrease in the FY 2013 estimate relative to the previous fiscal year is due to two infrequently occurring estate tax payments totaling $9.9 million that were received in FY 2012. The FY 2013 enacted estimate for inheritance and gift taxes includes $248,959 from the General Assembly's acceptance of the Governor's proposal to administer a tax amnesty program during FY 2013. Enacted FY 2013 inheritance and gift taxes are expected to constitute 1.1 percent of total enacted general revenues.

Fiscal Year 2013 realty transfer tax revenues are enacted at $5.9 million or 8.3 percent less than preliminary FY 2012 realty transfer tax revenues. Racing and athletics tax revenues are enacted at 1.2 million, or 9.6 percent less than preliminary FY 2012 revenues. Realty transfer tax revenues are expected to constitute 0.2 percent of enacted total general revenues in FY 2013 while enacted FY 2013 racing and athletics tax revenues are estimated to be less than 0.1 percent of the same.

Enacted FY 2013 departmental receipts are projected to generate $342.1 million, or 0.8 percent more than preliminary FY 2012 revenues. The General Assembly's FY 2013 enacted changes to departmental receipts total $147.1 million in additional revenue. Enacted FY 2013 departmental receipts represent 10.3 percent of total enacted general revenues. The licenses and fees category of departmental receipts includes $141.3 million in expected revenue as a result of the General Assembly's re-institution of the hospital licensing fee for FY 2013 at a rate of 5.350 percent of 2011 net patient revenues. The hospital licensing fee rate of 5.350 percent is discounted by 37.0 percent "for all hospitals located in Washington County, Rhode Island" subject to the approval of the Centers for Medicare and Medicaid Services. The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.3705 percent.

In addition to the enacted changes to the FY 2013 hospital licensing fee, the enacted FY 2013 departmental receipts estimate includes the following other initiatives:

- An increase of $512,004 by levying a surcharge of 4.0 percent on the net patient revenues of the newly reconstituted compassion centers;
- An increase of $186,075 from expanding the $0.04 per case beverage container and litter participation fee to all containers containing non-alcoholic beverages except for milk;
- A decrease of $65,987 from discontinuation of the Department of Environmental Management's municipal wastewater treatment testing program;
- An increase of $1.8 million from the restructuring of various license and renewal fees administered by the Department of Health;

- An increase of $2.8 million in interest paid on overdue taxes from the administration of the tax amnesty program;
- An increase of $58,650 in fines and penalties due to the imposition of a fee of $100.00 for the re-inspection of any school bus that has previously failed a safety inspection;
- An increase of $470,000 from the application of the State's 10.0 percent indirect cost recovery to the Department of Administration's Regional Greenhouse Gas Initiative restricted receipt account;
- A decrease of $9,695 from the elimination of the Department of Environmental Management's well drilling program;
- An increase of $47,348 in state hotel tax revenues from the administration of the tax amnesty program;

The enacted FY 2013 estimate for the other sources component of total general revenues is $399.9 million, a decrease of 3.0 percent, or $12.5 million, when compared to preliminary FY 2012 other sources revenues. Enacted other sources revenues are expected to comprise 12.0 percent of total enacted general revenues for FY 2013. The enacted FY 2013 estimate of other sources revenues includes $853,420 in revenues changes which are attributable to the other miscellaneous revenues and lottery transfer categories.

The Assembly's enacted FY 2013 estimate for other miscellaneous revenues is $15.7 million lower than the preliminary FY 2012 level of $20.1 million, a decrease of 77.9 percent. The preliminary FY 2012 revenues include $3.3 million in a settlement related to the 2002 refunding of State debt associated with the bond proceeds received by the State from the Tobacco Settlement Financing Corporation (TSFC), a transfer of $3.5 million from the Rhode Island Resource Recovery Corporation, and $4.7 million in miscellaneous settlements within the Department of Human Services. The General Assembly's enacted FY 2013 other miscellaneous revenues estimate includes a grant from Neighborhood Health Plan of Rhode Island of $1.8 million for dental care for low income adults. The final enacted FY 2013 estimate for other miscellaneous revenues comprise 0.1 percent of FY 2013 enacted total general revenues.

The enacted FY 2013 estimate for the lottery transfer is 2.6 percent greater than preliminary FY 2012 revenues. The General Assembly's enacted FY 2013 lottery transfer estimate includes a decrease of $946,580 for the Town of Lincoln's enhanced share of net terminal income generated at Twin River. The Town of Lincoln's share of Twin River net terminal income is increased from 1.26 percent to 1.45 percent as compensation for the 24 hours a day, seven days a week operations at Twin River. In FY 2013, the lottery transfer is enacted at $387.6.million and it comprises 11.7 percent of enacted total general revenues.

The final category of general revenues is the unclaimed property transfer. In FY 2013, this transfer is enacted at $6.7 million less, than the preliminary FY 2012 unclaimed property transfer, a decrease of 45.7 percent. The unclaimed property transfer is enacted at $7.9 million in FY 2013, and it comprises 0.2 percent of FY 2013 enacted total general revenues.

In addition to the enacted budget several pieces of legislation that have an impact on state general revenues were passed outside of the normal enacted budget process. These bills are summarized in the table below:

Legislation Passed Outside of the Normal Enacted Budget Process			
Bill Number	*Description*	*Revenue Item Impacted*	*FY 2013 Est. Impact*
H-7721 / S-2465	Increases rental vehicle surcharge (RVS) to 8.0 percent and decreases State share to 40.0 percent	Motor Vehicle License and Fees	$ 193,333
H-8161 / S-2835	Expand Middletown Enterprise Zone	Business Corporations Tax	(22,348)
H-7726A / S-2754	Exempt qualified sales of manufactured and mobile home parks from state and local taxes	Realty Transfer Tax	(7,576)
H-7640A / S-2241A	Exempts buses used 80.0 percent or more of the time in interstate commerce	Sales and Use Tax	Indeterminable
H-8213Aaa / S-3001A	Enhances Town of Lincoln's share of Twin River net terminal income	Lottery Transfer	[$946,850]
H-7157A / S-2283Aaa	Exempts animal feed for agricultural products used for human consumption	Sales and Use Tax	[($331,241)]
H-7888A / S-2555A	Amended the rules and regulations for the operation of compassion centers	Sales and Use Tax & Departmental Receipts	[$1,350,000]
		Total Fiscal Impact	**$163,409**

Figures in brackets represent amounts that were included in the FY 2013 enacted budget even though the legislation was not passed as part of the normal enacted budget process. The FY 2013 enacted budget assumed no fiscal impact from the exemption of animal feed from the sales and use tax due to the fact that the sales tax was never previously remitted to the Division of Taxation.

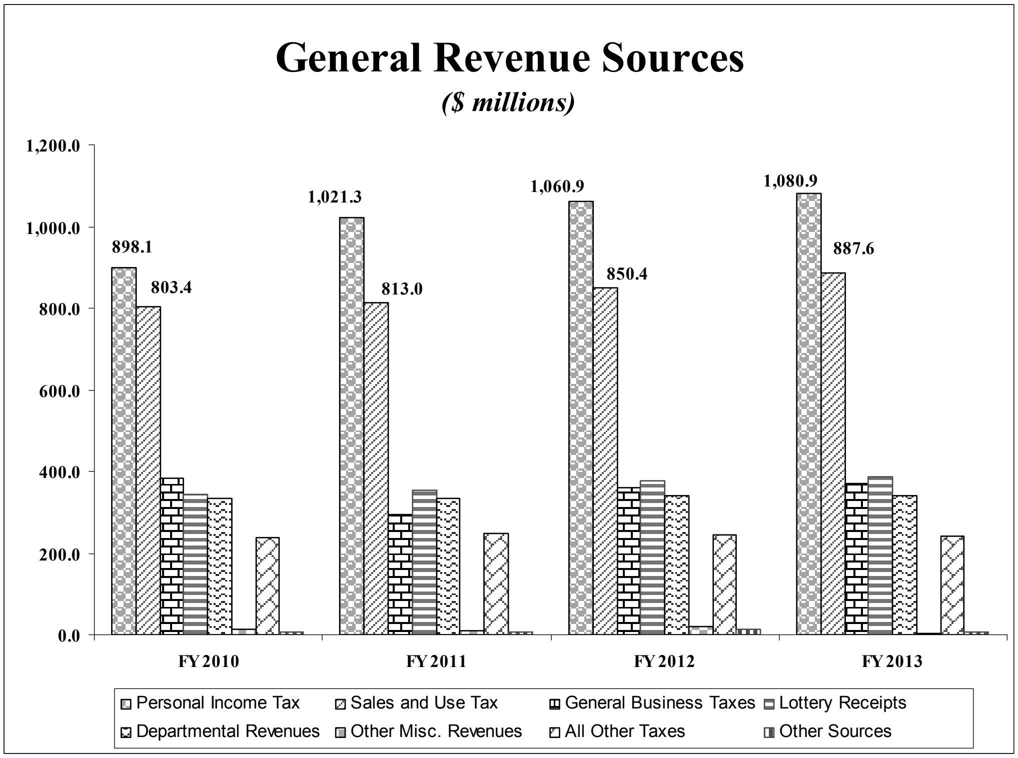
Restructure Rental Vehicle Surcharge: The General Assembly passed and the Governor signed into law an increase in the rental vehicle surcharge from 6.0 percent to 8.0 percent and a decrease in the State's share of total rental vehicle surcharges from 50.0 percent to 40.0 percent. The Office of Revenue Analysis estimates that revenues will increase by $193,333 in FY 2013 as a result of these changes.

Expand Middletown Enterprise Zone: The General Assembly approved the expansion of the enterprise zone in the Town of Middletown to include federal census tract 403.02 and redefined the enterprise zone designation for federal census tract 404 from blocks 2025, 2026, and 2030 to block groups 2 and 3 as approved by the Middletown Town Council. These changes will allow more business corporations tax filers to claim the Enterprise Zone wage tax credit. The Office of Revenue Analysis estimates that revenues will decrease by $22,348 in FY 2013. This legislation became effective on June 26, 2012 without the Governor's signature.

Exemption for the "Qualified Sale" of Mobile and Manufactured Home Parks: The General Assembly passed and the Governor signed into law legislation that exempted any "qualified sale" of a mobile and manufactured home park to a resident organization from state and local excise taxes. A qualified sale is defined as the sale of a mobile or manufactured home park to a residential organization with the goal of resident ownership by at least 51.0 percent of the homeowner households residing in the park. The Office of Revenue Analysis estimates that realty transfer tax revenues will be decreased by $7,576 in FY 2013 as a result of the passage of the act.

Exemption for Buses Used More Than 80.0 Percent in Interstate Commerce: The General Assembly passed and the Governor signed into law an expansion of the "exemption for buses, trucks and trailers in interstate commerce" to include buses used 80.0 percent or more in interstate commerce from the sales and use tax and local motor vehicle excise tax. Under prior law, a bus had to be used 100.0 percent of the time in interstate commerce to receive the exemption. The Office of Revenue Analysis could not determine the fiscal impact of this legislation. The Office of Revenue Analysis does, however, project a decrease in state and local revenue as the result of the enactment of this legislation.

The following chart shows the sources of general revenues for the period FY 2010 – FY 2013. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted. The general revenue amounts reflected in the chart for FY 2010 and FY 2011 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. The general revenue amount reflected for FY 2012 is derived from the preliminary closing report dated August 30, 2012 prepared by the State Controller prior to any audit adjustments by the Auditor General. The general revenue amount for FY 2013 is the amount reflected in the enacted FY 2013 budget.



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2010 through 2013 and expenditures for the fiscal years 2010 through 2013. General Fund data on expenditures for FY 2010 and FY 2011 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. Expenditures for FY 2012 Final Enacted reflect the supplemental budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012. Expenditures for FY 2012 Preliminary reflect the preliminary closing report issued by the State Controller on August 30, 2012. The expenditures for FY 2013 Enacted reflect those contained in the FY 2013 Budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012. 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 funds sources, as well as certain expenditures from Federal and Restricted sources.

General Fund revenues for FY 2010 and FY 2011 reflect the audited actual revenues as reported by the State Controller. FY 2012 Revised reflects the May 2012 Revenue Estimating Conference revenues, as amended by the General Assembly in the final enacted supplemental budget. FY 2011 Preliminary reflects the unaudited preliminary revenues as presented by the State Controller in the preliminary closing report issued on August 30, 2012. The FY 2013 revenues reflect those adopted by the Conferees at the May 2012 Revenue Estimating Conference and any statutory changes approved by the General Assembly as part of the final enacted FY 2013 Budget. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Enacted

	FY 2010 Audited	FY 2011 Audited	FY 2012 Final Enacted	FY 2012 Preliminary	FY 2013 Enacted*
Personal Income Tax	$ 898,113,113	$ 1,021,338,869	$ 1,046,200,000	$ 1,060,854,533	$ 1,080,856,603
General Business Taxes					
Business Corporations	146,834,598	84,510,308	131,600,000	123,225,702	133,251,413
Public Utilities Gross Earnings	95,792,717	103,743,912	98,300,000	100,631,477	100,100,000
Financial Institutions	2,319,242	2,459,474	2,500,000	3,557,938	1,700,000
Insurance Companies	95,921,454	60,590,000	89,000,000	89,509,870	89,825,327
Bank Deposits	1,860,271	1,967,288	2,100,000	2,000,645	2,100,000
Health Care Provider Assessment	40,254,281	40,760,872	41,600,000	41,922,464	42,206,533
Sales and Use Taxes					
Sales and Use	803,394,856	813,007,301	846,000,000	850,443,875	887,558,055
Motor Vehicle	48,285,182	47,654,534	47,700,000	48,391,564	47,700,000
Motor Fuel	968,870	1,054,939	1,000,000	732,672	1,100,000
Cigarettes	138,315,461	134,060,439	133,600,000	131,085,912	138,053,896
Alcohol	11,269,477	11,683,059	12,000,000	11,873,646	12,200,000
Other Taxes					
Inheritance and Gift	29,056,952	46,855,153	44,800,000	46,411,738	35,148,959
Racing and Athletics	1,492,221	1,325,193	1,300,000	1,327,003	1,200,000
Realty Transfer	6,993,915	6,370,632	5,900,000	6,434,665	5,900,000
Total Taxes	**$ 2,320,872,610**	**$ 2,377,381,973**	**$ 2,503,600,000**	**$ 2,518,403,704**	**$ 2,578,900,786**
Departmental Receipts	$ 333,128,045	$ 332,714,668	$ 344,500,000	$ 339,488,666	$ 342,094,537
Taxes and Departmentals	**$ 2,654,000,655**	**$ 2,710,096,641**	**$ 2,848,100,000**	**$ 2,857,892,370**	**$ 2,920,995,324**
Other Sources					
Gas Tax Transfer	$ 24,134	$ -	$ -	$ -	
Other Miscellaneous	12,466,517	11,116,047	16,800,000	20,110,214	4,440,000
Lottery	344,672,747	354,860,987	378,500,000	377,706,394	387,553,420
Unclaimed Property	5,867,150	7,640,462	14,000,000	14,555,573	7,900,000
Other Sources	**$ 363,030,548**	**$ 373,617,496**	**$ 409,300,000**	**$ 412,372,181**	**$ 399,893,420**
Total General Revenues	**$ 3,017,031,203**	**$ 3,083,714,137**	**$ 3,257,400,000**	**$ 3,270,264,551**	**$ 3,320,888,744**

* Omits $163,409 in additional revenue from various legislative changes which became law after the Budget was enacted.

Note: The audited revenues displayed above reflect gross receipts, including reimbursement of tax credits issued through the Historical Structures Tax Credit Program. The state's financial statements reflect the reimbursements as a transfer from other funds.

FY 2012 Changes to Enacted

	FY 2012 Final Enacted	FY 2012 Preliminary	Difference FY 2012 Preliminary vs. Final Enacted	Pct Difference FY 2012 Preliminary vs. Final Enacted	FY 2012 Preliminary vs. FY 2011 Audited
Personal Income Tax	$ 1,046,200,000	$ 1,060,854,533	$ 14,654,533	1.4%	3.9%
General Business Taxes					
Business Corporations	131,600,000	123,225,702	(8,374,298)	-6.4%	45.8%
Public Utilities Gross Earnings	98,300,000	100,631,477	2,331,477	2.4%	-3.0%
Financial Institutions	2,500,000	3,557,938	1,057,938	42.3%	44.7%
Insurance Companies	89,000,000	89,509,870	509,870	0.6%	47.7%
Bank Deposits	2,100,000	2,000,645	(99,355)	-4.7%	1.7%
Health Care Provider Assessment	41,600,000	41,922,464	322,464	0.8%	2.8%
Sales and Use Taxes					
Sales and Use	846,000,000	850,443,875	4,443,875	0.5%	4.6%
Motor Vehicle	47,700,000	48,391,564	691,564	1.4%	1.5%
Motor Fuel	1,000,000	732,672	(267,328)	-26.7%	-30.5%
Cigarettes	133,600,000	131,085,912	(2,514,088)	-1.9%	-2.2%
Alcohol	12,000,000	11,873,646	(126,354)	-1.1%	1.6%
Other Taxes					
Inheritance and Gift	44,800,000	46,411,738	1,611,738	3.6%	-0.9%
Racing and Athletics	1,300,000	1,327,003	27,003	2.1%	0.1%
Realty Transfer	5,900,000	6,434,665	534,665	9.1%	1.0%
Total Taxes	**$ 2,503,600,000**	**$ 2,518,403,704**	**$ 14,803,704**	**0.6%**	**5.9%**
Departmental Receipts	$ 344,500,000	$ 339,483,066	$ (5,016,934)	-1.5%	2.0%
Taxes and Departmentals	**$ 2,848,100,000**	**$ 2,857,886,771**	**$ 9,786,771**	**0.3%**	**5.5%**
Other Sources					
Gas Tax Transfer	$ -	$ -	$ -	n/a	n/a
Other Miscellaneous	16,800,000	20,110,214	3,310,214	19.7%	80.9%
Lottery	378,500,000	377,706,394	(793,606)	-0.2%	6.4%
Unclaimed Property	14,000,000	14,555,573	555,573	4.0%	90.5%
Other Sources	**$ 409,300,000**	**$ 412,372,181**	**$ 3,072,181**	**0.8%**	**10.4%**
Total General Revenues	**$ 3,257,400,000**	**$ 3,270,258,951**	**$ 12,858,951**	**0.4%**	**6.0%**

FY 2013 Changes to Adopted Estimates

		November 2011 Rev Est Conf		May 2012 Rev Est Conf		General Assembly Enacted Changes		FY 2013 Enacted*
Personal Income Tax	$	1,081,700,000	$	1,076,500,000	$	4,356,603	$	1,080,856,603
General Business Taxes								
Business Corporations		116,800,000		132,900,000		351,413		133,251,413
Public Utilities Gross Earnings		101,000,000		100,100,000		-		100,100,000
Financial Institutions		1,000,000		1,700,000		-		1,700,000
Insurance Companies		101,400,000		89,800,000		25,327		89,825,327
Bank Deposits		2,000,000		2,100,000		-		2,100,000
Health Care Provider Assessment		42,600,000		42,200,000		6,533		42,206,533
Sales and Use Taxes								
Sales and Use		868,000,000		873,400,000		14,158,055		887,558,055
Motor Vehicle		48,200,000		47,700,000		-		47,700,000
Motor Fuel		1,100,000		1,100,000		-		1,100,000
Cigarettes		128,800,000		131,100,000		6,953,896		138,053,896
Alcohol		11,900,000		12,200,000		-		12,200,000
Other Taxes								
Inheritance and Gift		31,000,000		34,900,000		248,959		35,148,959
Racing and Athletics		1,100,000		1,200,000		-		1,200,000
Realty Transfer		6,000,000		5,900,000		-		5,900,000
Total Taxes	**$**	**2,542,600,000**	**$**	**2,552,800,000**	**$**	**26,100,786**	**$**	**2,578,900,786**
Departmental Receipts	$	197,000,000	$	195,000,000		147,094,537	$	342,094,537
Taxes and Departmentals	**$**	**2,739,600,000**	**$**	**2,747,800,000**	**$**	**173,195,324**	**$**	**2,920,995,324**
Other Sources								
Gas Tax Transfer	$	-	$	-	$	-	$	-
Other Miscellaneous		2,725,000		2,640,000		1,800,000		4,440,000
Lottery		376,800,000		388,500,000		(946,580)		387,553,420
Unclaimed Property		9,900,000		7,900,000		-		7,900,000
Other Sources	**$**	**389,425,000**	**$**	**399,040,000**	**$**	**853,420**	**$**	**399,893,420**
Total General Revenues	**$**	**3,129,025,000**	**$**	**3,146,840,000**	**$**	**174,048,744**	**$**	**3,320,888,744**

* Omits $163,409 in additional revenue from various legislative changes which became law after the Budget was enacted.

Expenditures from All Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
General Government					
Administration (1)	$557,074,835	$466,222,505	$441,015,690	$388,265,972	$389,897,691
Business Regulation	9,313,438	9,861,335	19,796,370	12,591,226	13,977,309
Labor and Training	1,022,130,923	912,521,587	884,464,204	796,376,305	661,604,139
Revenue	269,354,051	268,488,387	330,554,182	345,151,113	333,502,288
Legislature	32,080,717	34,703,108	41,664,529	35,327,139	38,844,218
Lieutenant Governor	848,369	890,413	1,075,168	1,068,715	1,092,692
Secretary of State	5,999,701	6,995,441	7,072,676	6,742,224	7,418,107
General Treasurer	26,761,576	28,031,616	44,304,351	39,706,808	37,571,560
Board of Elections	1,202,211	3,400,118	1,754,261	1,660,728	1,952,116
Rhode Island Ethics Commission	1,366,012	1,419,805	1,462,946	1,410,813	1,557,881
Governor's Office	5,320,273	4,701,867	5,117,422	4,648,355	26,581,535
Commission for Human Rights	1,284,241	1,355,743	1,419,889	1,408,199	1,463,760
Public Utilities Commission	5,989,976	6,088,904	8,097,458	6,335,868	8,246,708
Rhode Island Commission on Women	71,068	-	-	-	-
Subtotal - General Government	**$1,938,797,391**	**$1,744,680,829**	**$1,787,799,146**	**$1,640,693,465**	**$1,523,710,004**
Human Services					
Office of Health & Human Services (2)	5,089,966	6,284,050	19,284,908	17,098,684	1,752,372,084
Children, Youth, and Families	234,187,262	235,882,905	217,756,541	216,588,821	216,622,996
Health	131,659,235	119,439,071	125,573,953	104,298,500	119,522,083
Human Services (3)	2,055,997,628	2,198,054,450	2,277,134,651	2,206,009,398	650,256,012
Behavioral Healthcare, Developmental Disabilities and Hospitals	458,930,214	450,952,134	429,219,020	428,033,267	445,671,144
Governor's Commission on Disabilities	578,829	514,758	771,737	597,971	751,439
Commission On Deaf and Hard of Hearing	339,304	358,036	386,286	377,005	390,251
Office of the Child Advocate	552,865	597,596	538,615	558,884	657,572
Office of the Mental Health Advocate	381,030	399,837	393,172	387,894	447,119
Subtotal - Human Services	**$2,887,716,333**	**$3,012,482,837**	**$3,071,058,883**	**$2,973,950,424**	**$3,186,690,700**
Education					
Elementary and Secondary	1,080,094,111	1,128,630,354	1,149,104,380	1,123,092,201	1,198,219,358
Higher Education - Board of Governors	901,551,465	942,679,878	1,031,243,174	1,010,759,178	1,031,676,319
RI Council on the Arts	3,014,458	3,454,128	3,862,407	2,760,123	3,408,107
RI Atomic Energy Commission	1,141,723	1,198,881	1,394,387	1,282,491	1,476,951
Higher Education Assistance Authority	23,669,359	23,672,445	27,920,690	24,036,466	27,722,149
Historical Preservation and Heritage Comm.	1,901,211	2,183,534	2,743,888	1,908,488	2,728,977
Public Telecommunications Authority	1,607,931	1,525,009	1,564,336	1,557,832	1,500,972
Subtotal - Education	**$2,012,980,258**	**$2,103,344,229**	**$2,217,833,262**	**$2,165,396,779**	**$2,266,732,833**

Expenditures from All Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
Public Safety					
Attorney General	22,310,578	23,618,629	26,728,399	24,597,318	30,009,938
Corrections	173,870,935	183,456,477	193,964,732	189,703,152	196,749,862
Judicial	91,925,710	97,166,263	102,763,576	100,907,796	104,248,298
Military Staff	25,640,295	36,424,255	48,000,209	36,046,731	42,450,127
Public Safety (4)	98,996,111	88,811,483	106,323,954	102,975,645	122,500,068
Office Of Public Defender	9,124,681	9,990,894	10,812,572	10,560,860	11,213,124
Subtotal - Public Safety	**$421,868,310**	**$439,468,001**	**$488,593,442**	**$464,791,502**	**$507,171,417**
Natural Resources					
Environmental Management	64,770,868	66,346,606	104,215,418	74,010,170	98,837,511
Coastal Resources Management Council	5,623,950	5,724,792	7,721,667	6,100,775	5,092,818
Water Resources Board (5)	1,235,380	1,335,871	-	-	-
Subtotal - Natural Resources	**$71,630,198**	**$73,407,269**	**$111,937,085**	**$80,110,945**	**$103,930,329**
Transportation					
Transportation	375,941,217	345,215,545	441,811,488	386,536,015	511,621,101
Subtotal - Transportation	**$375,941,217**	**$345,215,545**	**$441,811,488**	**$386,536,015**	**$511,621,101**
Total	**$7,708,933,707**	**$7,718,598,710**	**$8,119,033,306**	**$7,711,479,130**	**$8,099,856,384**

(1) In FY 2010, the Fire Code Board was merged into the Capital Projects division of Administration and in FY 2012, the Sheriffs program was moved to the Department of Public Safety.

(2) In FY 2013, the Medicaid program is moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from General Revenues

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
General Government					
Administration (1)	$418,405,347	$331,624,887	$249,020,598	$246,370,234	$272,514,956
Business Regulation	8,078,396	8,128,770	8,432,882	8,394,345	9,362,048
Labor and Training	6,308,677	6,902,868	7,513,540	7,553,603	7,859,170
Revenue	32,476,057	35,111,465	96,566,087	95,686,157	95,342,244
Legislature	30,577,686	33,127,794	40,022,474	33,685,084	37,217,044
Lieutenant Governor	848,369	890,413	951,109	948,391	962,955
Secretary of State	5,142,947	6,564,248	6,514,902	6,262,148	6,913,038
General Treasurer	2,072,608	2,240,286	2,638,944	2,531,859	2,542,115
Board of Elections	1,092,280	3,290,424	1,704,261	1,610,728	1,952,116
Rhode Island Ethics Commission	1,366,012	1,419,805	1,462,946	1,410,813	1,557,881
Governor's Office	4,344,370	4,102,488	4,295,298	4,081,232	4,418,290
Commission for Human Rights	959,253	1,214,438	1,142,820	1,093,206	1,137,768
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	71,068	-	-	-	-
Subtotal - General Government	**$511,743,070**	**$434,617,886**	**$420,265,861**	**$409,627,800**	**$441,779,625**
Human Services					
Office of Health & Human Services (2)	3,253,566	3,314,257	10,344,962	9,694,301	825,065,703
Children, Youth, and Families	152,831,095	156,123,293	151,901,406	153,716,673	152,586,452
Health	25,221,245	27,469,636	23,997,366	23,518,929	24,821,836
Human Services (3)	661,600,662	735,671,107	863,374,054	846,648,552	97,023,967
Behavioral Healthcare, Developmental Disabilities and Hospitals	160,665,295	172,743,967	187,086,151	190,883,740	193,137,995
Governor's Commission on Disabilities	343,441	352,190	387,929	381,164	371,096
Commission On Deaf and Hard of Hearing	339,304	358,036	386,286	377,005	390,251
Office of the Child Advocate	506,961	550,911	488,834	512,165	611,469
Office of the Mental Health Advocate	381,030	399,837	393,172	387,894	447,119
Subtotal - Human Services	**$1,005,142,599**	**$1,096,983,234**	**$1,238,360,160**	**$1,226,120,423**	**$1,294,455,888**
Education					
Elementary and Secondary	803,066,786	846,144,631	864,901,278	860,936,950	935,364,061
Higher Education - Board of Governors	161,108,248	163,941,501	165,654,006	165,658,691	172,456,170
RI Council on the Arts	1,615,295	1,681,095	1,664,834	1,656,365	1,565,813
RI Atomic Energy Commission	769,039	858,629	877,459	875,412	876,213
Higher Education Assistance Authority	6,611,632	7,320,186	5,911,798	5,911,331	5,617,064
Historical Preservation and Heritage Comm.	1,256,875	1,294,878	1,337,855	1,253,696	1,361,801
Public Telecommunications Authority	1,000,695	929,325	928,421	928,421	799,077
Subtotal - Education	**$975,428,570**	**$1,022,170,245**	**$1,041,275,651**	**$1,037,220,866**	**$1,118,040,199**

Expenditures from General Revenues

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
Public Safety					
Attorney General	19,592,235	20,763,514	22,254,817	22,161,393	23,076,324
Corrections	169,892,046	177,719,606	185,999,307	184,655,159	183,293,277
Judicial	78,865,431	84,300,614	87,859,899	87,723,958	89,249,996
Military Staff	4,104,899	3,755,542	3,586,872	3,491,202	3,548,775
Public Safety (4)	54,155,469	69,087,143	91,569,827	90,786,762	94,790,039
Office Of Public Defender	9,013,466	9,493,812	10,288,214	10,166,398	10,791,226
Subtotal - Public Safety	**$335,623,546**	**$365,120,231**	**$401,558,936**	**$398,984,872**	**$404,749,637**
Natural Resources					
Environmental Management	32,646,082	34,074,887	35,585,780	35,707,703	34,546,300
Coastal Resources Management Council	1,938,722	2,063,094	2,239,147	2,234,732	2,264,841
Water Resources Board (5)	1,052,485	1,123,928	-	-	-
Subtotal - Natural Resources	**$35,637,289**	**$37,261,909**	**$37,824,927**	**$37,942,435**	**$36,811,141**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	**$0**	**$0**	**$0**	**$0**	**$0**
Total	**$2,863,575,074**	**$2,956,153,505**	**$3,139,285,535**	**$3,109,896,396**	**$3,295,836,490**

(1) In FY 2010, the Fire Code Board was merged into the Capital Projects division of Administration a to the Department of Public Safety.

(2) In FY 2013, the Medicaid program is moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Federal Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
General Government					
Administration (1)	$57,534,460	$64,251,529	$97,556,204	$64,385,780	$25,578,747
Business Regulation	-	465,176	9,441,337	3,207,926	2,719,081
Labor and Training	330,506,335	234,108,321	223,705,731	205,099,597	111,743,981
Revenue	1,803,123	1,139,852	2,164,649	1,472,179	2,450,709
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	124,059	120,324	129,737
Secretary of State	397,172	33,659	55,438	52,872	-
General Treasurer	1,072,595	1,140,258	1,198,452	1,199,277	1,159,712
Board of Elections	109,931	109,694	50,000	50,000	0
Rhode Island Ethics Commission	-	-	-	(1)	-
Governor's Office	55,161	40,411	109,768	-	22,163,245
Commission for Human Rights	324,988	141,305	277,069	314,993	325,992
Public Utilities Commission	105,096	266,641	320,311	307,914	321,795
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$391,908,861**	**$301,696,846**	**$335,003,018**	**$276,210,861**	**$166,592,999**
Human Services					
Office of Health & Human Services (2)	1,254,175	2,367,877	8,042,506	6,506,943	914,833,795
Children, Youth, and Families	78,805,892	76,711,604	61,224,853	59,910,929	58,440,291
Health	88,783,805	69,303,495	73,795,549	55,654,566	65,015,651
Human Services (3)	1,380,745,701	1,446,893,845	1,391,982,280	1,342,498,130	539,731,758
Behavioral Healthcare, Developmental Disabilities and Hospitals	287,059,335	267,384,605	228,350,618	225,892,158	234,125,964
Governor's Commission on Disabilities	85,780	124,377	122,448	70,987	120,649
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	45,904	46,685	49,781	46,719	46,103
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,836,780,592**	**$1,862,832,488**	**$1,763,568,035**	**$1,690,580,432**	**$1,812,314,211**
Education					
Elementary and Secondary	259,815,919	259,873,651	251,161,783	235,083,047	230,760,206
Higher Education - Board of Governors	3,746,126	9,441,081	24,507,261	23,218,047	4,852,615
RI Council on the Arts	1,117,813	954,515	979,573	824,067	998,794
RI Atomic Energy Commission	130,200	76,635	183,752	79,057	267,616
Higher Education Assistance Authority	10,873,936	9,744,236	13,034,719	9,566,865	13,346,283
Historical Preservation and Heritage Comm.	589,499	831,658	873,856	537,821	836,139
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$276,273,493**	**$280,921,776**	**$290,740,944**	**$269,308,904**	**$251,061,653**

Expenditures from Federal Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
Public Safety					
Attorney General	1,297,016	1,788,468	2,906,182	1,475,840	1,483,604
Corrections	2,106,693	2,780,906	3,204,407	2,388,892	1,995,588
Judicial	2,830,983	2,555,921	3,152,639	2,377,916	2,682,107
Military Staff	20,725,608	32,256,773	42,861,075	31,350,783	33,842,074
Public Safety (5)	18,591,398	9,267,352	9,245,781	7,573,445	6,940,151
Office Of Public Defender	111,215	497,082	524,358	394,462	421,898
Subtotal - Public Safety	**$45,662,913**	**$49,146,502**	**$61,894,442**	**$45,561,338**	**$47,365,422**
Natural Resources					
Environmental Management	18,437,828	19,885,602	43,328,189	22,171,087	34,997,551
Coastal Resources Management Council	1,806,719	3,501,698	4,566,202	3,054,725	1,677,977
Water Resources Board (5)	-	-	-	-	-
Subtotal - Natural Resources	**$20,244,547**	**$23,387,300**	**$47,894,391**	**$25,225,812**	**$36,675,528**
Transportation					
Transportation	$242,296,127	$229,999,857	$338,457,178	$290,588,574	$362,340,586
Subtotal - Transportation	**$242,296,127**	**$229,999,857**	**$338,457,178**	**$290,588,574**	**$362,340,586**
Total	**$2,813,166,533**	**$2,747,984,769**	**$2,837,558,008**	**$2,597,475,921**	**$2,676,350,399**

(1) In FY 2010, the Fire Code Board was merged into the Capital Projects division of Administratio to the Department of Public Safety.

(2) In FY 2013, the Medicaid program is moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Restricted Receipts

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
General Government					
Administration (1)	$19,964,401	$14,219,372	$19,617,027	$15,107,475	$16,286,426
Business Regulation	1,235,042	1,267,389	1,922,151	1,470,285	1,896,180
Labor and Training	19,182,847	20,821,559	43,154,647	17,888,780	36,292,695
Revenue	4,001,548	4,836,294	2,201,281	1,993,811	1,845,255
Legislature	1,503,031	1,575,314	1,642,055	1,642,055	1,627,174
Lieutenant Governor	-	-	-	-	-
Secretary of State	459,582	397,534	502,336	427,204	505,069
General Treasurer	23,407,229	24,442,547	40,217,240	35,767,114	33,618,221
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	920,742	558,968	712,356	567,124	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	5,884,880	5,822,263	7,777,147	6,027,954	7,924,913
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$76,559,302**	**$73,941,240**	**$117,746,240**	**$80,891,802**	**$99,995,933**
Human Services					
Office of Health & Human Services (2)	582,225	601,916	897,440	897,440	12,472,586
Children, Youth, and Families	2,148,243	2,426,338	2,825,382	2,682,360	2,825,253
Health	17,590,794	22,658,203	27,609,038	25,113,233	29,512,596
Human Services (3)	8,898,484	10,590,911	17,389,133	12,585,836	9,111,103
Behavioral Healthcare, Developmental Disabilities and Hospitals	7,747,477	6,941,943	7,118,447	6,973,731	7,188,834
Governor's Commission on Disabilities	7,931	5,191	11,360	7,442	9,694
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$36,975,154**	**$43,224,502**	**$55,850,800**	**$48,260,042**	**$61,120,066**
Education					
Elementary and Secondary	15,794,969	19,581,873	24,726,436	23,014,366	25,643,868
Higher Education - Board of Governors	738,830	658,531	817,347	41,971	702,583
RI Council on the Arts	100,000	-	-	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	54,837	56,998	457,177	-	456,037
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$16,688,636**	**$20,297,402**	**$26,000,960**	**$23,056,337**	**$26,802,488**

Expenditures from Restricted Receipts

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
Public Safety					
Attorney General	1,051,750	791,992	1,347,400	837,372	5,162,510
Corrections	-	12,347	104,336	92,770	61,397
Judicial	8,843,617	9,480,024	10,629,955	9,731,044	10,641,195
Military Staff	94,563	189,042	470,030	205,899	481,278
Public Safety (4)	942,338	209,090	600,087	416,630	12,687,548
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$10,932,268**	**$10,682,495**	**$13,151,808**	**$11,283,715**	**$29,033,928**
Natural Resources					
Environmental Management	10,159,927	10,389,053	13,682,519	11,406,708	14,309,942
Coastal Resources Management Council	223,000	160,000	250,000	145,000	250,000
Water Resources Board (5)	-	-	-	-	-
Subtotal - Natural Resources	**$10,382,927**	**$10,549,053**	**$13,932,519**	**$11,551,708**	**$14,559,942**
Transportation					
Transportation	757,110	187,949	2,698,891	2,518,104	998,758
Subtotal - Transportation	**$757,110**	**$187,949**	**$2,698,891**	**$2,518,104**	**$998,758**
Total	**$152,295,397**	**$158,882,641**	**$229,381,218**	**$177,561,708**	**$232,511,115**

(1) In FY 2010, the Fire Code Board was merged into the Capital Projects division of Administration and in FY 2012, the Sheriffs program was moved to the Department of Public Safety.

(2) In FY 2013, the Medicaid program is moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Other Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
General Government					
Administration (1)	$61,170,627	$56,126,717	$74,821,861	$62,402,483	$75,517,562
Business Regulation	-	-	-	-	-
Labor and Training	666,133,064	650,688,839	610,090,286	565,834,326	505,708,293
Revenue	231,073,323	227,400,776	229,622,165	245,998,966	233,864,080
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	209,144	208,525	249,715	208,558	251,512
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$958,586,158**	**$934,424,857**	**$914,784,027**	**$874,444,333**	**$815,341,447**
Human Services					
Office of Health & Human Services (2)	-	-	-	-	-
Children, Youth, and Families	402,032	621,670	1,804,900	278,859	2,771,000
Health	63,391	7,737	172,000	11,772	172,000
Human Services (3)	4,752,781	4,898,587	4,389,184	4,276,880	4,389,184
Behavioral Heathcare, Developmental Disabilities and Hospitals	3,458,107	3,881,619	6,663,804	4,283,638	11,218,351
Governor's Commission on Disabilities	141,677	33,000	250,000	138,378	250,000
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$8,817,988**	**$9,442,613**	**$13,279,888**	**$8,989,527**	**$18,800,535**
Education					
Elementary and Secondary	1,416,437	3,030,199	8,314,883	4,057,838	6,451,223
Higher Education - Board of Governors	735,958,261	768,638,765	840,264,560	821,882,440	853,664,951
RI Council on the Arts	181,350	818,518	1,218,000	279,691	843,500
RI Atomic Energy Commission	242,484	263,617	333,176	328,022	333,122
Higher Education Assistance Authority (4)	6,183,791	6,608,023	8,974,173	8,558,270	8,758,802
Historical Preservation and Heritage Comm.	-	-	75,000	75,000	75,000
Public Telecommunications Authority	607,236	595,684	635,915	629,411	701,895
Subtotal - Education	**$744,589,559**	**$779,954,806**	**$859,815,707**	**$835,810,672**	**$870,828,493**

Expenditures from Other Funds

	FY 2010 Actual	FY 2011 Actual	FY 2012 Final Revised	FY 2012 Preliminary Actual	FY 2013 Enacted
Public Safety					
Attorney General	369,577	274,655	220,000	122,713	287,500
Corrections	1,872,196	2,943,618	4,656,682	2,566,331	11,399,600
Judicial	1,385,679	829,704	1,121,083	1,074,878	1,675,000
Military Staff	715,225	222,898	1,082,232	998,847	4,578,000
Public Safety (4)	25,306,906	10,247,898	4,908,259	4,198,808	8,082,330
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$29,649,583**	**$14,518,773**	**$11,988,256**	**$8,961,577**	**$26,022,430**
Natural Resources					
Environmental Management	3,527,031	1,997,064	11,618,930	4,724,672	14,983,718
Coastal Resources Management Council	1,655,509	-	666,318	666,318	900,000
Water Resources Board (5)	182,895	211,943	-	-	-
Subtotal - Natural Resources	**$5,365,435**	**$2,209,007**	**$12,285,248**	**$5,390,990**	**$15,883,718**
Transportation					
Transportation	132,887,980	115,027,739	100,655,419	93,429,337	148,281,757
Subtotal - Transportation	**$132,887,980**	**$115,027,739**	**$100,655,419**	**$93,429,337**	**$148,281,757**
Total	**$1,879,896,703**	**$1,855,577,795**	**$1,912,808,545**	**$1,827,026,436**	**$1,895,158,380**

(1) In FY 2010, the Fire Code Board was merged into the Capital Projects division of Administration a to the Department of Public Safety.

(2) In FY 2013, the Medicaid program is moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

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. The unexpended balances of the Judicial branch and the Legislative branch are reappropriated at their request by law. Free surplus is the amount available at the end of any fiscal year for future appropriation by the General Assembly.

The Governor is required to submit a balanced budget. The General Assembly is also required to enact a balanced budget. Over the last several years, the State has faced budget shortfalls after the budget was enacted.

The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish five year forecasts of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that out year expenditures will exceed revenues, at times by a substantial amount. The State Budget Office's most recent projections for FY 2014 through FY 2017, which were based on the Governor's recommended budget and revenue forecasts from November 2011, forecasted deficits of $103.6 million for FY 2014, $232.2 million for FY 2015, $348.7 million for FY 2016 and $464.4 million for FY 2017. Based on the FY 2013 Enacted Budget, the House Fiscal Staff forecasts deficits of $146.2 million for FY 2014, $276.6 million for FY 2015, $392.8 million for FY 2016 and $508.4 million for FY 2017. These estimates take into account the potential impact of implementation of gaming in Massachusetts and the potential loss of revenue to Rhode Island's two gaming facilities. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY 2002 and FY 2003 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 (including interest earnings) in FY 2004.

In his FY 2008 Budget, the Governor proposed that the State sell the rights to the residual tobacco settlement payments reflecting those revenues from the Master Settlement Agreement which will be received by the State after the 2002 bonds of the Tobacco Settlement Financing Corporation are fully repaid. The Tobacco Settlement Financial Corporation sold $197.0 million of such bonds on June 27, 2007, and the net proceeds to the State totaled $195.0 million. The budget enacted by the General Assembly allocated $42.5 million in FY 2007 and $124.0 million in FY 2008 for working capital purposes, and provided $28.4 million for heavy equipment/vehicles and capital projects. There was an additional $1.7 million of interest on invested tobacco bond proceeds which was available for transfer to the Rhode Island Capital Plan Fund for these capital projects.

The State's Annual Comprehensive Financial Report for FY 2008 revealed a deficit of $42.95 million for the fiscal year ended June 30, 2008. This was a result of revenues falling below enacted estimates by $7.1 million and expenditures exceeding appropriations by $37.4 million. Additionally, the Governor is required by law to reappropriate unexpended balances from FY 2008 for the General Assembly amounting to $1.7 million. The Governor sought appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at $102.8 million at the end of FY 2008. The General Assembly did not make an appropriation to resolve the FY 2008 $42.95 million deficit. The deficit of $42.95 million, when combined with the $102.8 million reserve fund, resulted in approximately $60 million of combined balances. The budget enacted by the General Assembly in June 2008 for FY 2009 was predicated upon available resources of $3.2762 billion net of reserve fund contributions, and expenditures of $3.2762 billion resulting in an estimated closing surplus of $0.1 million. The General Assembly enacted a FY 2010 Budget that included expenditures of $3.0 billion from general revenues, $800,000 less than FY 2009 actual expenditures. The reduction in general revenue spending was the result of both reductions in real expenditures and shifts from state general revenue sources to one-time federal fund sources. Much of this shifting was the result of funds being made available from the American Recovery and Reinvestment Act of 2009. For the FY 2010 Revised Budget, the General Assembly appropriated $2.886 billion, which was $113.5 million less than the originally enacted budget. For FY 2011, the General Assembly appropriated $2.942 billion in the Enacted Budget, and $2.974 billion in the Supplemental Budget. For FY 2012, the General Assembly appropriated $3.143 billion in the Enacted Budget and $3.139 billion in the Supplemental Budget.

The nation has been feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 59,900 Rhode Islanders unemployed as of July 2012. The jobless rate peaked at 12.7 percent in December 2009 and the State currently ranks second in the nation with an 10.8 percent rate of unemployment as of July 2012, compared to 8.1 percent nationally. The State has depleted the resources it set aside to pay unemployment benefits and has been borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Recent data, however, have shown an increase in tax collections. FY 2012 personal income tax collections were $1.061 billion based upon the State Controller's preliminary closing report and were enacted at $1.081 billion in FY 2013. Uncertainty about the economic future and the contraction of the State's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. FY 2012 sales and use tax receipts were $850.4 million based upon the State Controller's preliminary closing report and are estimated to reach $887.6 million in FY 2013 once changes to the sales tax base enacted by the 2012 General Assembly are taken into account. The business corporations tax, which peaked in FY 2006 at $165.1 million were $123.2 million in FY 2012 based upon the State Controller's preliminary closing report and are expected to be at $133.3 million in the FY 2013 Enacted Budget. Rhode Island's preliminary general revenue receipts were $3.270 billion in FY 2012 and are estimated to be $3.321 billion in the FY 2013 Enacted Budget.

FY 2013 Enacted Budget

The initial projected deficit for FY 2013 was approximately $215.0 million and included a major increase in the estimated annual required contribution (ARC) for the pension benefits for state employees and teachers. This increase in the ARC was the result of certain changes approved by the State Retirement Board to the assumed rate of return on investments and mortality rates for retirees. The ARC for state employee pensions was projected to increase from 22.98 percent in FY 2012 to 36.34 percent in FY 2013. This would have required increased general revenue expenditures of almost $52.8 million. Similar increases were forecast for other employee groups, including judges, and State Police troopers, as well as local teachers, for whom the state covers 40 percent of the annual pension liability. As a result of these projected increases in the State's pension liability, the Governor and the General Treasurer worked closely with the General Assembly to enact comprehensive pension reform legislation in the fall of 2011, resulting in new actuarially determined contribution rates that are significantly lower than those that would have gone into effect on July 1, 2012. As a result of this legislation, projected general revenue spending for FY 2013 was reduced by over $117.9 million. Also included in the pension reform legislation is a new Defined Contribution Plan for state employees and teachers whereby the employer (state and municipalities) will contribute at least one percent (1.0%) of an employee's pay, and the employees will contribute five percent (5.0%).

Subsequent to pension reform and the November 2011 Revenue and Caseload Estimating Conferences, the projected deficit for FY 2013 was revised to approximately $117.4 million. This deficit was addressed through a combination of expenditure modifications, increased revenues and one-time revenue or expenditure changes. As reflected on the Free Surplus table, a surplus of $115.5 million was assumed at the close of FY 2012, which would carry over to FY 2013. The projected ending balance for FY 2013 is approximately $130,000. Proposed revenue changes are described in detail above under the Revenue section entitled "Revenue Estimates".

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2010 through 2013. FY 2010 and FY 2011 data are derived from the State's Comprehensive Annual Financial Reports prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2012 Revised Budget reflects the FY 2012 revised budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012. The FY 2012 Preliminary reflects the State Controller's preliminary closing report for FY 2012 dated August 30, 2012. The FY 2013 Enacted Budget reflects the FY 2013 budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012.

The budgets as recommended by the Governor result in revenues of $3.201 billion in FY 2012 and $3.366 billion in FY 2013 and expenditures of $3.173 billion in FY 2012 and $3.269 billion in FY 2013. The free surplus is estimated to be $6.0 million in FY 2012 and $1.4 million in FY 2013. The final FY 2011 audit report reflects an ending surplus of $68.8 million.

FY 2013 General Revenue Budget Surplus

	FY 2010 Audited[1]	FY2011 Audited[2]	FY 2012 Revised [3]	FY 2012 Preliminary [4]	FY 2013 Enacted [5]
Surplus					
Opening Surplus	($62,286,103)	$17,889,522	$64,229,426	$64,229,426	$93,870,509
Audit Adjustments	-	604,058	-	-	-
Reappropriated Surplus	998,143	3,364,847	4,532,242	4,532,242	-
Subtotal	**($61,287,960)**	**$21,858,427**	**$68,761,668**	**$68,761,668**	**$93,870,509**
General Taxes	2,320,872,610	2,377,381,973	$2,458,886,118	$2,518,403,704	2,542,600,000
Revenue estimators' revision		-	44,713,882	-	10,200,000
Changes to the Adopted Estimates		-	-	-	84,987,278
Rebased Changes to Adopted		-	-	-	644,625
Governor Changes to Recommend		-	-	-	(26,859,656)
General Assembly Changes		-	-	-	(32,612,811)
Subtotal	**$2,320,872,610**	**$2,377,381,973**	**$2,503,600,000**	**$2,518,403,704**	**$2,578,959,436**
Departmental Revenues	333,128,045	332,714,668	343,543,141	339,488,666	197,000,000
Revenue estimators' revision	-	-	956,859	-	(2,000,000)
Changes to the Adopted Estimates	-	-	-	-	148,597,793
Rebased Changes to Adopted	-	-	-	-	(4,754)
Governor Changes to Recommend	-	-	-	-	201,323
General Assembly Changes	-	-	-	-	(1,758,475)
Subtotal	**$333,128,045**	**$332,714,668**	**$344,500,000**	**$339,488,666**	**$342,035,887**
Other Sources					
Gas Tax Transfers	24,134	-	-	-	-
Other Miscellaneous	12,466,517	11,116,047	6,325,000	20,110,214	2,725,000
Revenue estimators' revision	-	-	10,475,000	-	(85,000)
Changes to the Adopted Estimates	-	-	-	-	3,073,000
Lottery	344,672,747	354,860,987	361,042,103	377,706,394	376,800,000
Revenue estimators' revision	-	-	17,457,897	-	11,700,000
Changes to the Adopted Estimates	-	-	-	-	
Unclaimed Property	5,867,150	7,640,462	6,200,000	14,555,573	9,900,000
Revenue estimators' revision	-	-	7,800,000	-	(2,000,000)
General Assembly Changes	-	-	-		(2,219,580)
Subtotal	**363,030,548**	**$373,617,496**	**$409,300,000**	**$412,372,181**	**$399,893,420**
Total Revenues	**$3,017,031,203**	**$3,083,714,137**	**$3,257,400,000**	**$3,270,264,551**	**$3,320,888,743**
Transfer to Budget Reserve	**(70,913,882)**	**(80,657,401)**	**(93,005,624)**	**(93,365,831)**	**(102,442,778)**
Total Available	**$2,884,829,361**	**$3,024,915,163**	**$3,233,156,044**	**$3,245,660,388**	**$3,312,316,475**
Actual/Enacted Expenditures	**$2,863,574,992**	**$2,956,153,495**	**$3,142,501,188**	**$3,109,896,396**	**$3,269,153,035**
Reappropriations		-	4,532,242	7,726,521	-
Caseload Conference Changes		-	(31,259,688)	-	(14,215,952)
Governor's Recommended Budget		-	26,815,202	-	-
March Amendments		-	46,068	-	666,081
May Amendments		-	2,399,168	-	10,649,543
General Assembly Changes		-	(5,748,645)	-	29,583,783
Total Expenditures	**$2,863,574,992**	**$2,956,153,495**	**$3,139,285,535**	**$3,117,622,917**	**$3,295,836,490**
Total Ending Balances	**$21,254,369**	**$68,761,668**	**$93,870,509**	**$128,037,471**	**$16,479,985**
Transfer to Other Funds [6]	**$0**	**$0**	**$0**	**($12,504,344)**	**($16,350,000)**
Reappropriations	(3,364,847)	(4,532,242)	-	-	-
Free Surplus	**$17,889,522**	**$64,229,426**	**$93,870,509**	**$115,533,127**	**$129,985**
Budget Reserve and Cash Stabilization Account	**$112,280,314**	**$130,258,817**	**$152,794,954**	**$153,386,723**	**$170,737,963**

[1] Derived from the State Controller's final closing report for FY 2010, dated December 30, 2010, reflecting a surplus of $17,889,522.

[2] Derived from the State Controller's final closing report for FY 2011, dated December 22, 2011, reflecting a surplus of $64,229,426.

[3] Reflects the final FY 2012 revised budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012.

[4] Derived from the State Controller's preliminary closing report for FY 2012, dated August 30, 2012, reflecting a surplus of $115,533,127.

[5] Reflects the FY 2013 budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012.

[6] Reflects restricted General Fund balance regarding transfer to retirement and transfers to the Information Technology Investment Fund and the State Fleet Revolving Loan Fund in FY 2013.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years, the State has sought to enhance the timeliness of completion regarding the Comprehensive Annual Financial Report (CAFR). As a result, the CAFR and related annual audit for fiscal year ending June 30, 2011 were completed on December 22, 2011 and was available by the close of the calendar year.

As part of the auditing process for the fiscal year ending June 30, 2011, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the Auditor General's report entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General's website at www.oag.ri.gov/reports.html. The State has dedicated substantial resources to resolving these issues and continues to attempt to address deficiencies as they are raised.

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 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.

The Public Finance Management Board has adopted and from time to time revised Credit Guidelines for use in evaluating certain elements of the State's debt burden. The current guidelines are as follows: Tax Supported Debt to not exceed the target range of 5.0 percent to 6.0 percent of personal income, and annual debt service for Tax Supported Debt to not exceed 7.5 percent of general revenues. As of June 30, 2012, net tax supported debt was 4.03 percent of personal income, and annual debt service was 6.52 percent of general revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels, general revenues and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects. The Board monitors the total amount of Tax Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income and general revenues. The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. The Credit Guidelines provide that if a Credit Guideline is exceeded due to economic or financial circumstances, the Public Finance Management Board should request that the Governor and the General Assembly recommend a plan to return debt levels to the Credit Guidelines within five years.

According to the most recent Capital Budget, the projected ratio of debt service to general revenues is projected to range between 6.72 percent and 7.35 percent over the five year planning horizon. The state's general revenue receipts have begun to recover over the last two years, and the out-year forecast reflects a continuing, but slow recovery. The State will continue to take appropriate actions to address debt service obligations, such as refundings, and will closely monitor the growth of debt service expenditures.

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. As of June 30, 2012, the balance of Sinking Fund Commission funds was $0.

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:

Fiscal Year	Maximum Principal Amount Outstanding	Percent of Prior Year's Tax Receipts
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
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4
2010	350,000,000	14.6
2011	350,000,000	15.2
2012	200,000,000 *	8.4
2013	0 **	0.0

*Actual issuance; General Assembly authorized issuance of up to $350.0 million.
** No issuance is currently planned for FY 2013, although the General Assembly authorized issuance of up to $250.0 million

Net Tax Supported State Debt

The State has multiple categories of State debt, including without limitation, 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 July 1, 2012, authorized but unissued direct debt totaled $116,952,195 and there was no authorized but unissued guaranteed debt. However, see the discussion on guaranteed debt under the heading "State Indebtedness – Authorized but Unissued Direct Debt" below.

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, 2012, the State had $1.1106 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2013 through FY 2032.

Outstanding Debt Service Payments - General Obligation Bonds

Fiscal Year	Principal	Interest	Total Debt Service
2013	88,040,000	50,614,575	138,654,575
2014	74,055,000	48,622,247	122,677,247
2015	82,860,000	45,123,078	127,983,078
2016	81,780,000	41,223,952	123,003,952
2017	86,085,000	37,076,902	123,161,902
2018	75,020,000	33,222,036	108,242,036
2019	71,435,000	29,666,120	101,101,120
2020	65,555,000	26,470,569	92,025,569
2021	69,100,000	23,392,440	92,492,440
2022	60,760,000	20,285,428	81,045,428
2023	62,330,000	17,284,211	79,614,211
2024	54,215,000	14,480,470	68,695,470
2025	48,780,000	11,908,754	60,688,754
2026	50,545,000	9,428,449	59,973,449
2027	36,745,000	7,149,700	43,894,700
2028	36,910,000	5,193,328	42,103,328
2029	21,475,000	3,425,237	24,900,237
2030	22,455,000	2,189,944	24,644,944
2031	10,920,000	916,575	11,836,575
2032	11,520,000	316,800	11,836,800
	1,110,585,000	**427,990,816**	**1,538,575,816**

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of July 1, 2012. Excludes guaranteed and contingent debt.

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 July 1, 2012 which have been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of July 1, 2012*
Direct Debt:		
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	4,500,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	6,800,000
Transportation	Ch. 246-P.L. of 2006	2,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	800,000
Environmental Management	Ch. 246-P.L. of 2006	1,000,000
Transportation	Ch.100-P.L.of 2008	500,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	1,000,000
Higher Education	Ch. 23-P.L. of 2010	56,500,000
Transportation	Ch 22-P.L. of 2010	44,650,000
Total Direct Debt		**$116,952,195**

Source: State Budget Office

**Reflects reduction of $1,552,805 in authorization which will not be issued since premium received in 2007 upon the sale by the State of its $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds was allocated to the projects related to such Bonds.*

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. As of July 1, 2012, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

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 December 31, 1991, the State has extinguished a total of $96,276,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

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. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2012, $1,145,000 of these certificates were outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in 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 for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2012, $8,115,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 in certificates of participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2012, $13,060,000 in certificates of participation were outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 in 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. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2012, $1,570,000 in 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. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2012, there was $16,735,000 in certificates outstanding.

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. In

2006, the State financed $5.0 million for related affordable housing projects. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects. As of June 30, 2012, there was $0 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. In March 2006, a second series of bonds totaling $42,815,000 was sold, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2012, $70,350,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2012, there was $42,110,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2012, there was $16,380,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. As of June 30, 2012, there was $40,290,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. As of June 30, 2012, there was $16,795,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which are intended to result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2012, there was $20,120,000 outstanding.

In 2009, the State entered into a lease agreement with a financial institution that issued $30,425,000 of certificates of participation for the construction of a new School for the Deaf. As of June 30, 2012, there was $27,410,000 outstanding.

In June 2009, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of Economic Development Corporation Revenue Bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2012, there was $105,990,000 of such Revenue Bonds outstanding.

In May 2010, the State entered into a loan agreement with the Bank of America in the amount of $11,000,000 to provide funds for the replacement of the Registry of Motor Vehicle computer system. The debt service on this loan will be funded from a $1.50 surcharge on all Registry transactions. As of June 30, 2012, there was $8,175,000 of this loan outstanding.

In July 2011, the State entered into a lease agreement with a financial institution that issued $31,980,000 certificates of participation for energy conservation projects for the Department of Administration, University of Rhode Island and Community College of Rhode Island, which are intended to result in cost savings. As of June 30, 2012, there was $30,070,000 outstanding.

Moral Obligation of the State Regarding 38 Studios

In November, 2010, the RI Economic Development Corporation issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios to fund relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RI Economic Development Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RI Economic Development Corporation has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. 38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the RI Economic Development Corporation and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds but it is not certain at this time what is the value of the assets pledged. It is estimated that the total debt service on the bonds after considering any existing reserves with the trustee may be in the range of $89 million. The maturity dates on the bonds range from 2015 to 2020 with maximum annual debt service of approximately $12.75 million. Governor Chafee has publicly pledged to request the General Assembly to appropriate funds as necessary to satisfy the funding obligations of the RI Economic Development Corporation in connection with the bonds. The General Assembly may but is not required to appropriate such amounts.

Obligations for Which Appropriation Has Not Been Made

In December 1999, the Economic Development Corporation entered into a limited recourse guaranty, not to exceed $3,000,000, in connection with the refinancing by the Employee's Retirement System of Rhode Island ("ERS") of a four-story office building in Providence formerly known as the American Express Building. The Economic Development Corporation's delivery of the limited recourse guaranty and its cap of $3,000,000 was potentially to be utilized to supplement a gap between previously issued debt secured by mortgages on the property and certain appraisals of the property's value at that time. After a series of payment defaults to the ERS, and various creditor actions, in December 2004 Gateway Eight Limited Partnership ("Gateway") filed for bankruptcy protection. Thereafter, legal proceedings resulted in the sale of the American Express Building and various creditor rights actions resulted in a net balance deficiency to the ERS of an amount less than $2,000,000. After the sale of the property and the calculation of the deficiency, the ERS invoked the terms of Economic Development Corporation's limited recourse guaranty, which, in addition to limiting payment to $3,000,000, limits the obligations of the Economic Development Corporation to funds received by the General Assembly for this purpose and further limits the Economic Development Corporation's obligations to request the Governor to submit an appropriation request to the General Assembly for any payment obligation of the Economic Development Corporation pursuant to the limited recourse guaranty. The Economic Development Corporation submitted the appropriations requests to the Governor in accordance with the terms of the limited recourse guaranty annually as requested by the ERS. The Governor has not elected to request the General Assembly to fund the limited recourse guaranty to ERS. Unlike certain other bonds or indebtedness of the Economic Development Corporation, pursuant to the enabling act for the Economic Development Corporation, there is no capital reserve fund to be replenished with respect to the limited recourse guaranty to ERS. Hence, there is no requirement under such enabling act that the Governor submit the appropriations request to the General Assembly to fund the Economic Development Corporation's limited recourse guaranty to ERS.

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of July 1, 2012, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$52,720,000
Information Technology Certificates of Participation	$45,300,000
Economic Development Corporation – Historic Structures Tax Credit Fund	$206,200,000

Economic Development Corporation – Fund to Grow Rhode Island Companies	$44,500,000
Economic Development Corporation – 195 Land Sales	$42,000,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$390,720,000

It is not expected that the Economic Development Corporation will issue any additional debt in FY 2013 for the Historic Structures Tax Credit program. As originally intended the EDC will issue debt in order to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved for quasi-public agencies and the Board of Governors for Higher Education, which will be funded from non-general revenue sources.

It is expected that the Economic Development Corporation will issue up to $42.0 million for the I-195 District Redevelopment Commission to purchase from the Department of Transportation land made available by the relocation of section so I-195 in the City of Providence. The debt service on these bonds will be subject to annual appropriation by the General Assembly.

It is also expected that the State will issue Certificates of Participation during FY 2013 for continuing energy conservation work at state facilities and higher education facilities at both the University of Rhode Island and the Community College of Rhode Island. In addition, Certificates will be issued for Information Technology projects for an Integrated Tax System and for improvements to the technology infrastructure of local education agencies. The actual amounts to be issued will be determined at a later date based on the projected project costs and the needs of the respective agencies.

The FY 2010 Enacted Budget included a Debt Management Joint Resolution that allows the Rhode Island Public Rail Corporation, which is an instrumentality of the State, to fully indemnify AMTRAK's operations of the South County Commuter Rail. Section 8 of Article 17 of the FY 2010 Appropriations Act authorized, and Section 4 of Article 6 of the FY 2011 Appropriation Act has renewed the authorization of, the Rail Corporation to secure, with the funding support of the Department of Transportation, either a line or evergreen letter of credit in the amount of $7.5 million in favor of AMTRAK to secure the Rail Corporation's performance of its obligations arising under any South County Rail Service agreements that may be entered into. The letter of credit for $7.5 million has been issued.

Performance-based obligations of the 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 between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against 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 Phase II bonds with similar provisions were issued. As of June 30, 2012, $24.229 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.5 million in 2012, and would reach $2.5 million for Phase I and $954,000 for Phase II annually, if maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2012, $8,360,000 of Fleet bonds were outstanding. Under the lease agreement with Fleet, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. The company has never reported jobs levels in excess of the base number of jobs (approx. 3,900). Job rent credits, if maximized are estimated to result in a State obligation of approximately $945,000 per year.

Borrowing for the Employment Security Fund

The Employment Security Fund is comprised primarily of monies collected from a tax imposed on Rhode Island employers. These funds are used for the sole purpose of paying Unemployment Insurance benefits to eligible claimants. All funds are deposited in the State's account in the federal Unemployment Trust Fund which is administered by the United States Treasury.

An employer's contribution rate is determined by (a) the level of reserves in the fund and (b) the individual employer's history of unemployment. The level of reserves determines the tax rate schedule in effect for all covered employers in the State for a specific calendar year, while a particular company's experience with unemployment determines the tax rate within that schedule at which that company is assessed.

The balance in the Rhode Island Employment Security Fund was ($239.6) million as of July 31, 2012. This was an increase of $2.8 million from July 31, 2011. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government $70.3 in FY 2009, $155.2 million in FY 2010, $89.9 million in FY 2011 and $228.3 million in FY 2012. From May 1, 2011 through June 30, 2012 the Department repaid $311.3 million in principal of its federal loans through the automatic application of Unemployment Insurance taxes received to the outstanding federal loans in order to reduce the interest due each September 30th. The Department projects that it will need to continue to borrow in FY 2013 as authorized by federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the final transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 million repayment of the outstanding loan balance.

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2011 and as of July 31, 2012. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) minus employee benefits and loan repayments (disbursements) less any outstanding loan balance.

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-127.5	127.5	-0-
2010	-194.3	98.0	-0-
2011[1]	-228.3	169.9	167.1
2012[2]	-239.6	170.6	159.2

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State also borrowed $98.0 million in 2010, $169.9 million in 2011 and 101.2 million through August 1, 2012. It is expected

[1] Unaudited as of December 31, 2011 including outstanding federal loans
[2] Unaudited as of July 31, 2012 including outstanding federal loans

that additional borrowing will be needed in 2013 for cash flow purposes. The outstanding loan balance is expected to peak at $273.6 million by the end of April 2013.

Under ARRA, the loans from the federal account did not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by September 30th of each year. The Department paid $7.1 million to the federal government in interest due on its federal loans for the January 1, 2011 to September 30, 2011 period. It expects to pay approximately $7.3 million in interest for the October 1, 2011 to September 30, 2012 period. Failure to pay interest by a due date would have resulted in a loss of state employer federal unemployment tax (FUTA) tax credits and the loss of the State's Unemployment Insurance (UI) Administrative grant. The interest due on federal loans could not be paid out of the State's UI Trust fund or by UI Grant funds. As a result, the General Assembly passed legislation that deleted a 0.3% UI surtax scheduled to take effect on January 1, 2011 and added 0.3% to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans. If the State is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a FUTA of 6.0% to the federal government less a credit of 5.4% when state UI law is in conformity with federal law. The net federal tax is, therefore, 0.6%. However, after two years of outstanding loans, federal law requires cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit is applied against the State's federal loan balance. Rhode Island employers were subject to the first 0.3% tax credit reduction on 2011 taxable wages which reduced the outstanding federal loan by $7.8 million in 2012. Rhode Island will still have an outstanding federal loan balance on November 10, 2012, so employers will be subject to a 0.6% tax credit reduction on 2012 taxable wages with payment due by January 31, 2013.

Article 22 of the FY 2011 Appropriations Act expanded benefit eligibility and allowances under the Unemployment Insurance program. This article was effective January 1, 2011 and applies to all new claims filed from that day forward, but not to existing claims. Implementing these changes allowed the state to receive $15.6 million in Unemployment Insurance Modernization funding in 2010 made available through ARRA.

Article 4 of the FY 2012 Appropriations Act implements adjustments to the Unemployment Insurance taxable wage base provisions beginning on January 1, 2012 and adjustments to Unemployment Insurance benefit provisions beginning on July 1, 2012. On the employer tax side, the taxable wage base went from a fixed amount based on the Employment Security Fund reserve to a variable amount equal to 46.5% of Rhode Island's average annual wage in January 2012. For CY 2012 the taxable wage base for most employers is $19,600. The taxable wage base for employers with the highest negative reserve account percentages is $21,100, which is $1,500 above the level set for all other employers. In CY 2013 the taxable wage base is expected to rise by $600 to $20,200 for most employers and $21,700 for employers with the highest negative reserve account percentages.

On the benefits side, the maximum weekly benefit amount formula percentage was adjusted effective July 1, 2012. It was previously set at 67% of the statewide average weekly wage. This article reduces the percentage to 57.5% of the statewide average weekly wage. However, the maximum cannot be lower than the maximum Weekly Benefit Amount level of $566 that took effect on July 1, 2011 and that remains the current maximum.

For individual workers, the total amount of benefits payable during a benefit year was reduced from a maximum of 36% of total wages during his or her base period, to 33% effective July 1, 2012. In addition, the percentage of an individual's earnings replaced by Unemployment Insurance benefits was reduced from 60% to 57% on July 1, 2012. It will be further reduced to 54% in FY '14 and 50% in FY '15.

It is estimated that if projected savings from these changes are realized, then taken together these changes could enable Rhode Island to repay its federal loans in 2015 through a combination of $214.6 million in increased federal and state taxes and estimated projected savings of $100.1 million in benefit adjustments. If the estimated savings are realized, these changes could then enable the Employment Security Fund to rebuild its reserves. These estimates are based on the Department of Labor and Training's projections of employment and unemployment levels assuming a gradual recovery from the current recession and therefore are uncertain and subject to change.

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 of the General Laws, 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 of the Series 1997 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 the Authority’s 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 $16,805,000 at June 30, 2012.

On April 28, 2010, the Authority issued $50,000,000 Revenue Bonds, Series 2010A secured by tolls and other revenues for the purpose of financing the renovation, repair and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible. The outstanding balance of the Series 2010A Revenue Bonds is $50,000,000 at June 30, 2012.

On February 1, 2009, the Authority converted to electronic toll collection (E-ZPass) and discontinued accepting tokens for passage over the Claiborne Pell Bridge. In connection with the Enacted FY 2011 Budget, the General Assembly has authorized the Authority to issue up to an additional $68.1 million of revenue bonds to be secured by toll and other revenues for the purpose of financing the renovation, repair, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible.

In its 2012 session, the General Assembly amended Chapter 12, Title 24 of the General Laws to authorize the transfer of the Sakonnet River Bridge and the Jamestown Verrazzano Bridge to the Authority and approved tolling the Sakonnet River Bridge subject to federal regulations and approvals. The Authority is currently working on a transition plan with the Department of Transportation pursuant to this legislation. It is anticipated that the transfer would occur during the fiscal year ending June 30, 2013.

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. The Commission is authorized 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. On January 1, 1992 the former Blackstone Valley District Commission was merged into the Narragansett Bay Commission.

All of the Commission’s full-time union employees participate in the Employees Retirement System (“ERS”) of the State of Rhode Island. The Commission has contributed 100% of its required pension contribution to ERS. For the fiscal year ended June 30, 2012, the Commission has also fully funded its required contribution to the trust established by the State in Fiscal Year 2012 to accumulate assets and pay benefits and costs associated with other post-retirement health benefits.

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. As of June 30, 2012, the

Commission has outstanding net long-term debt (revenue bonds) of $149,568,958 and outstanding net long-term loans payable to the Rhode Island Clean Water Finance Agency of $320,786,986.

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 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. Effective July 1, 2008, the General Assembly reduced the authorization to $20,000,000, but the authorization was increased by the General Assembly during the 2010 Session to $60,000,000.

As of June 30, 2012, the Authority had outstanding mortgage agreements and other commitments for $19,476,587 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, 2012, the Fund had a balance of $1,737,320. 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.

In February 2012, the Authority began using the Insurance Fund to satisfy amounts required to service an outstanding loan guarantee on a $5 million loan made to Capco Steel Corporation, which had defaulted on the loan. As of June 30, 2012, the outstanding loan guarantee was $4.6 million.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws 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, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. 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. In November 1991 the Authority sold $225 million in bonds to finance the construction of the Rhode Island Convention Center and in July 1993 the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C Bonds. The 1993 Series C Bonds were retired in FY08. During FY09, the Authority refunded the 2001 Series A, thereby converting the variable risk of this series with a fixed rate. This series was replaced by 2009 Series A and B. The 2009 Series B issue is federally taxable.

As of June 30, 2012, the Authority had $250,510,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 1993 Series B - $ 21,340,000
- 2003 Series A - $ 41,315,000
- 2005 Series A - $ 33,435,000
- 2006 Series A - $ 84,745,000
- 2009 Series A - $ 69,190,000
- 2009 Series B - $ 485,000

The Authority purchased the Dunkin' Donuts Civic Center from the City of Providence in December of 2005 for a purchase price of $28.5 million. The purchase price for the acquisition of the Dunkin Donuts Civic Center, together with funds for the renovation of and ancillary expenditures regarding the Dunkin Donuts Civic Center, was financed in 2006 through a taxable bond issuance of $92.5 million constituting the 2006 Series A Bonds.

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. Pursuant to a Lease and Agreement dated as of November 30, 2005 between the Authority, as lessor, and the State, as lessee, the Authority leased the Dunkin Donuts Center to the State. The State is obligated to make lease payments in an amount sufficient to pay the operating expenditures of the Authority and the corresponding 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, a public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws 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, 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. The outstanding balance at June 30, 2012 totals $11,160,000.

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.

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. However, in years when the Corporation took in excess volumes of solid waste that generated surplus cash, the General Assembly required the Corporation to transfer a portion of those surpluses to the State's General Fund.

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 required the establishment of a trust in the amount of $27,000,000 to fund remedial actions; the EPA approved the Central Landfill Remediation Trust Fund Agreement on August 22, 1996. The majority of these remedial actions, including the construction of a landfill cap and the installation of the groundwater pump and treat system, have been completed, paid for and approved by the EPA. Based on current engineering estimates the annual operation and maintenance costs required under the Consent decree for the next five years are included the Corporation's closure / post-closure liability. The EPA reviews the need to continue these activities every five years.

While the cost of future remedial actions may potentially increase based on EPA's review and evaluation, 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 outside of 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 established trust funds, in accordance with Rhode Island Department of Environmental Management (RIDEM) requirements for a municipal solid waste landfill, for the closure and post closure care costs related to all currently operating and closed phases of the landfill. At June 30, 2012, the Corporation has approximately $83,607,663 in trust funds, which includes the remaining balance of the Superfund remediation trust funds, to meet the financial requirements of closure and post closure care costs related to Phases I, II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation's total estimate of future landfill closure and post-closure costs for existing phases is approximately $86,000,000 as of June 30, 2012. The RIDEM has approved the Corporation's application for licensure of Phase VI. Based on current cost estimates the Corporation expects to record an additional $70,000,000 of closure and post-closure costs over the anticipated life of Phase VI which will be activated in 2014.

As a result of some ethical concerns and suspected misuse of Corporation funds raised by the Corporation's Executive Director, a preliminary forensic audit was ordered by the Governor in January 2008. The findings of that audit completed in March 2008 confirmed these concerns and the Governor then ordered a full forensic audit. On September 22, 2009 the Bureau of Audits released the results of its examination of the Corporation. Although none of the findings are expected to have a significant impact on the Corporation's financial position, the audit did reveal $75,000,000 of mismanagement losses during the eight year period examined. In 2010, the Agency began the legal process to collect against insurance policies that covered against fiduciary losses and various third-parties.

In December 2005 a Complaint was filed in Providence County Superior Court alleging that the Corporation, its former Executive Director and other defendants (unrelated to the Corporation) through their actions and omissions have caused harm to the plaintiffs through exposure to alleged toxic substances, as well as assertions of unspecified damages and punitive damages. Various claims, including negligence, strict liability and other torts, have been alleged. The Corporation and the former Executive Director have answered and denied the allegations. To date, the plaintiffs have not established a causal relationship between any claimed exposure to substances in the landfill and their claimed medical problems. The Corporation has filed a motion for partial summary judgment on certain of the plaintiffs' claims and on certain issues of causation. The court has heard arguments on the motion and the matter is under advisement. No trial date has been set.

In September 2011 the Corporation sued a waste hauler for the collection of a past due accounts receivable. In response, the defendant filed a counterclaim alleging the Corporation engaged in conduct in violation of Rhode Island's Anti-Trust Act and seeks $500,000 in compensatory damages and $500,000 in punitive damages. The Corporation's legal counsel believes the counterclaim to be without merit, and has moved for Summary Judgment, citing the fact that the Corporation as a public body of the State and is exempt from the Act. In June 2012 the defendant's counterclaim was withdrawn and accordingly dismissed.

On December 14, 2011 the Town of Johnston filed a complaint against the Rhode Island Resource Recovery Corporation alleging that odors emanating from RIRRC's Central Landfill located at 65 Shun Pike, in Johnston, Rhode Island have given rise to a public nuisance and constitutes a breach of the Host Community Agreement. Due to the recent filing of an Amended Complaint on or about February 10, 2012, and the limited information currently available, management is not able to categorize the possibility of a future loss, if any, nor can management estimate the range of any possible loss with any reasonable accuracy. The Corporation has notified its pollution liability insurance carrier of this litigation and is seeking coverage under its policy.

On February 2, 2012 the Rhode Island Department of Environmental Management issued a Notice of Violation to the Corporation and Broadrock Gas Services LLC relating to alleged air pollution violations at the Central Landfill. The Notice of Violation required the Corporation and Broadrock Gas Services LLC to take certain action to remediate the alleged violations and assessed a $55,000 penalty. The Corporation has notified its pollution liability insurance carrier of the Notice of Violation and is seeking coverage under its policy.

Pursuant to Rhode Island General Laws Sections 35-18-3 and 35-18-4, the Corporation has requested the approval of the General Assembly of the Corporation's issuance of not more than $40 million of Revenue Bonds for the purpose of providing funds for the design and construction of a leachate pretreatment facility to comply with projected changes in discharge standards for the disposal of wastewater into a public sewer system. In the 2012 Session, the General Assembly granted the Corporation the necessary approval to issue these bonds.

The State of Rhode Island, in conjunction with its annual budgeting process, may include a provision in its budget requiring the Corporation to pay an amount to the State's general fund. From fiscal years 1995 through 2009, the Corporation has paid approximately $66,715,000 to the State's general fund. The State's budget for fiscal year 2012 provides for a payment of $3,500,000 from the Corporation to the State's general fund which the Corporation paid in June 2012.

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 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.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2012, the Agency has issued bonds in the aggregate amount of $1,063,434,000 to fund $1,246,435,642 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, 2012 is $484,220,000 in the clean water state revolving fund (CWSRF wastewater projects), $78,330,000 for six conduit financings and $144,435,000 in the drinking water state revolving fund. Also, in years 1997 through 2012, the Agency made a total of $44,330,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $39,998,037 in direct loans out of the Drinking Water State Revolving Fund and $58,845,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund and two loans out of the Agency's operating fund totaling $5,998,005.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws 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 257 buses and 135 vans carrying approximately 19.4 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 time to time with the most recent increase being from $1.50 to $1.75 to $2.00 in September 2010. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2012, audited results of operations reveal that State-operating assistance to the Authority totaled $40,945,215, operating revenues totaled $33,698,198, and other revenues totaled $24,044,399.

It should be noted that over the past several months the authority has come under a high level of scrutiny related to its management and financial condition. As a result, Governor Chafee ordered a resource team headed by the Lt. Colonel of the Rhode Island State Police to temporarily take over the day to day operations of the Authority and review all aspects of the organization. This Resource Team has been given full authority to carry out its assignment and will update the Board on their findings at their bi-weekly board meeting.

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, and was created in 1974 under Chapter 64, title 42 of the General Laws. The 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.

As of June 30, 2012, the Corporation had revenue bonds outstanding of $1,063,289,907 including conduit debt of $100,185,855 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. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

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 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. On April 26, 2006, the total outstanding bonds were defeased.

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. At June 30, 2012, the outstanding balance was $15,585,985.

In May 2002, the 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. In connection therewith, the 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, 2012, the outstanding balance was $8,643,067.

In addition, pursuant to the lease, the 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 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 2012, the State's expenditure for this purpose was $2,828,776.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, to be utilized by 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, 2012, the outstanding balance was $8,360,000.

Bonds secured by the Corporation's capital reserve fund (including bonds for 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 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 May 2000, the 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 is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient. As of June 30, 2012, there was $24,730,000 of bonds outstanding.

In November 2003, Rhode Island 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. In March 2006, a second series of bonds totaling $42,815,000 was sold. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2012, $70,350,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2012 there was $342,720,000 outstanding which were supported by federal revenues.

In June 2009, the Corporation issued revenue bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits from time to time presented by taxpayers. These revenue bonds are supported by a payment agreement with the State subject to annual appropriation. As of June 30, 2012, there was $105,990,000 of such revenue bonds outstanding.

In November, 2010 the Corporation issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, and provided funding for relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the Economic Development Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the Economic Development Corporation has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. The General Assembly may but is not required to appropriate such amounts. For further information regarding the current status of 38 Studios and the bonds issued by the Economic Development Corporation for 38 Studios, see "State Indebtedness – Moral Obligation of the State Regarding 38 Studios". An additional $5,500,000 in guarantees was issued under the Job Creation Guaranty program for notes through June 30, 2012.

In July 2011 the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also creates the I-195 redevelopment district commission (the "Redevelopment Commission"). The seven member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other state and federal Transportation funds would be made available, which would impact the progress of other contemplated projects.

Rhode Island Airport Corporation. RIAC was created by the Rhode Island Economic Development Corporation (EDC) on December 9, 1992 as a public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State of Rhode Island (State) and EDC, having many of the same powers and purposes as EDC. RIAC is a component unit of the EDC, which is a component unit of the State. RIAC is empowered, pursuant to its Articles of Incorporation and Rhode Island law, to undertake the planning, development, management, acquisition, ownership, operation, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility", as defined in Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Act"). "Airport facility" is defined in the Act in part as "developments consisting of runways, hangars, control towers, ramps, wharves, bulkheads, buildings, structures, parking areas, improvements, facilities, or other real or personal property, necessary, convenient, or desirable for the landing, takeoff, accommodation, and servicing of aircraft of all types, operated by carriers engaged in the transportation of passengers or cargo, or for the loading, unloading, interchange, or transfer of the passengers or their baggage, or the cargo, or otherwise for the accommodation, use or convenience of the passengers or the carriers or their employees (including related facilities and accommodations at sites removed from landing fields or other areas), or for the landing, taking off, accommodation, and servicing of aircraft owned or operated by persons other than carriers".

Pursuant to the State Lease Agreement, RIAC leases T.F. Green Airport (Airport) and the five general aviation airports (collectively, Airports) from the State for a term ending June 30, 2038 at a rental of $1.00 per year. RIAC has also acquired all of the personal property and other assets of the State located at or relating to the Airports. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's (RIDOT) responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation (G.O.) Bonds related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State 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 authority to issue bonds or notes or borrow money without the approval of EDC.

RIAC operates T. F. Green Airport, which is Rhode Island's only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2012, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and two regional airlines. Air Georgian provides international service at the Airport. Two airlines provide all-cargo service.

Airport Use and Lease Agreements

RIAC established Signatory Airline Agreements with Delta Airlines, FedEx, Southwest Airlines, United Airlines, United Parcel Service Co. and US Airways. Affiliates of Signatory Airlines operate under the terms and conditions of the Signatory Airline Agreements. Air Georgian and Cape Air executed Non-Signatory Agreements.

The term of the Signatory Airline Agreement is five years from July 1, 2010 through June 30, 2015. A Cost Center Residual Rate Methodology is utilized to establish the Landing Fee and Apron Rental Rates. The Terminal Rental Rate Methodology is Commercial Compensatory. A Majority-in-Interest approval is not required for Capital Improvement Projects. The Signatory Agreement incorporates an Airline Net Revenue Sharing methodology for Signatory Passenger Airlines. Distribution of each Signatory Passenger Airline's portion of the revenue-sharing is based on enplanements. Under this process, RIAC retains the first $1 million and the Signatory Passenger Airlines share the next $600,000. If there are remaining funds after the $1.6 million, the Signatory Airlines share 40% and RIAC retains 60%. Non-Signatory Airlines' landing fees, apron fees and terminal rental rates are 125% of the Signatory Airlines' rates.

Historical Enplanement Data

T.F. Green Airport was ranked as the 63rd busiest airport in the country for federal fiscal year 2010 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, FAA. This compares with rankings of 61st busiest in federal fiscal years 2009 and 2008, and 60th busiest in federal fiscal years 2007 and 2006.

Actual enplaned passengers for fiscal year 2012 were 36,752 below 2011, resulting in a decrease of 1.9%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn.

General Aviation Airports

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract by and between RIAC and AFCO AvPORTS Management, LLC (AvPORTS). Each of these airports is briefly described below:

North Central Airport

Located approximately fifteen miles north of T.F. Green Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Smithfield.

Quonset Airport

This airport is located in North Kingstown, approximately ten miles south of the Airport. The Rhode Island Air National Guard moved its operations from the Airport to Quonset Airport in 1986. The Rhode Island Army National Guard also maintains a presence at Quonset Airport. Quonset Airport has additional industrial facilities which are leased to several companies by the Quonset Development Corporation (QDC), a subsidiary of the EDC. Quonset Airport is classified by the FAA as a reliever airport.

Westerly Airport

This airport is located in Westerly, approximately thirty-five miles southwest of the Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

Newport Airport

This airport is located in Middletown, approximately seventeen miles southeast of the Airport. Newport Airport is classified as a general aviation airport.

Block Island Airport

Situated on Block Island just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

Long-Term Debt Administration - General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2012 and 2011 was $5.225 million and $6.79 million, respectively.

In 1994, RIAC issued $30 million Series A General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding as of June 30, 2012 and 2011 was $ 3.345 and $4.315 million respectively.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2012 and 2011 was $32.06 million for both years.

In 2003, RIAC issued $31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of $31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2012 and 2011 was $11.57 million and $14.19 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2012 and 2011 was $48.90 million and $48.985 million, respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B General Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2012 and 2011 was $109.89 million and $112.21 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B General Airport Revenue Bonds dated May 30, 2008 maturing annually through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2012 and June 30, 2011 was $46.825 million and $49.185 million, respectively.

Long-Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the InterLink Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.195 million and $48.765 million as of June 30, 2012 and 2011, respectively. The InterLink Project involved the construction of an Intermodal Facility, including a parking garage, rental car facility and train station, along with construction of a walkway connecting this new facility with T.F. Green Airport. The 2006 First Lien Bonds are payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

The Trust Estate consists of: (i) Facility Revenues (which include Customer Facility Charges (CFCs)); (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture; (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture; and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the InterLink Project, RIAC and the EDC secured additional funds under the USDOT's TIFIA for the payment of eligible project costs of the InterLink up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund that was funded from CFCs on the Date of Operational Opening in an amount of $3,328,407. As of June 30, 2012 and June 30, 2011 approximately $40.059 million and $23.838 million, respectively had been drawn on the TIFIA loan.

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. 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, 2012, the Corporation had an outstanding principal balance of conduit debt of $65,485,403. 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 $19,476,587 as of June 30, 2012.

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, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, 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, 2011 was $1,656,681,625 consisting of $1,541,588,625 of long-term bonds and notes and $115,093,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $235,172,235 in bonds, which are secured in part by capital reserve funds which have aggregated to $40,811,797 on June 30, 2011. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2012 was $1,602,788,286 consisting of $1,399,728,286 of long-term bonds and notes and $203,060,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $227,135,801 in bonds, which are secured in part by capital reserve funds which have aggregated to $42,344,600 on June 30, 2012. 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 select multi-family issues of the Corporation.

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 June 30, 2012, the Authority held $534,486,355 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on June 30, 2012, $418,423,265 in state based private education loans. As of June 30, 2012 the Authority had $565,855,000 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 (WRBC) 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 WRBC 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 WRBC 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 March 1, 1994, the WRBC issued revenue bonds for public drinking water protection in the amount of $11,835,000. On November 15, 2002, the Board issued $11,835,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of $7,847,700. The excess proceeds were used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2011 was $4,477,563.

During the 2009 Session, the General Assembly enacted legislation which provides that upon the repayment by the WRBC of all of its existing debt, the WRBC is to be dissolved and all existing functions and duties of the WRBC are to be transferred to the Rhode Island Clean Water Finance Agency.

During the 2011 Session, the General Assembly enacted legislation that transferred all employees, accounts, and properties to the Division of Planning in the Department of Administration. The legal counsel for the Department of Administration has confirmed that although these assets of the WRB and WRBC have been transferred to the Division of Planning, the Board members of the WRB and WRBC retain their existing authority and obligations that comprise their programs under Chapter 46-15 and 46-15.1 through 46-15.8 of the General Laws of Rhode Island.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist colleges and universities in the State with the financing of educational facilities, to assist hospitals in the State with the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State with the financing of the cost or a portion of the cost of higher education, to assist with financing a broad range of non-profit health care projects, to assist with financing non-profit secondary schools, child day care centers, adult day care centers, free standing assisted living facilities, and to assist local educational authorities in the State with financing public school projects. To assist it with 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 funds 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, 2012, the Corporation had $3,005,379,375 of bonds and notes outstanding (excluding series secured by funds held in trust for future redemption).

Tobacco Settlement Financing Corporation. The Tobacco Settlement Financing Corporation ("TSFC") was created in 2002 as a public corporation, having 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 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 TSFC 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" for the years 2004-2043. The TSFC issued an additional $197.0 million of its TSAC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $779,425,742 of principal outstanding, or $846,326,430 including accreted interest at June 30, 2012.

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 the Director of Labor & Training for mediation and conciliation to assist in a voluntary resolution of impasses. If impasses are not resolved, the Conciliator makes written findings of fact and recommendations with a view toward the voluntary settlement of unresolved issues. If mediation and conciliation fail or are not requested, any and all unresolved issues are submitted 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 the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only.

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 August 29, 2012 the State had 14,933 paid employees. This equates to approximately 13,512.8 full-time equivalent positions. Of this amount, 11,172 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 3,782 employees, or 34.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (816 employees); the Rhode Island Brotherhood of Correctional Officers (1,068 employees); the American Association of University Professors (686 employees) to name a few. In addition, there are 3,761 non-union employees. Contracts with all but two of the collective bargaining units expire on or prior to October 1, 2012. The State and the Rhode Island Brotherhood of Correctional Officers utilized the interest arbitration process to determine the collective bargaining agreements for 2006 through 2009 and 2009 through 2012. The interest arbitration panel issued their awards on March 31, 2010. The State Police union recently ratified a new contract for the period of May 2010 through April 2013.

The FY 2011 Enacted Budget included new provisions in the pension system for state employees, teachers, and judges who were not eligible for retirement in September 30, 2009 and were not eligible to retire as of the enactment of the proposal. These provisions limited cost of living adjustments to the first $35,000 of the retirement allowance, indexed to inflation but capped at 3 percent, beginning in the third anniversary of the date of retirement or age 65, whichever is later. Savings from this action were estimated at $16.0 million in general revenue expenditure, $5.7 million from state employees and judges, and $10.3 million from teachers ($4.2 million from the state share and $6.1 million from the municipalities). As a result of changes that were enacted, which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there were a significant number of state employees who retired.

As part of the FY 2012 Enacted Budget, the General Assembly imposed a moratorium on the longevity pay program for state employees. This program provided employees increases in pay based on years of services as follows: 5 percent after 5 years, 10 percent after 11 years, 15 percent after 15 years, 17.5 percent after 20 years and 20 percent after 25 years. The moratorium was effective July 1, 2011 for non-union employees and as of the end of current collective bargaining agreements that include longevity pay provisions for unionized employees, most of which expired June 30, 2012. Employees will maintain any longevity pay they have earned as of these dates, but will not be eligible to received additional increments.

As of August 29, 2012 there were 13,512.8 FTE positions filled, 1,513.5 less than the authorized amount in the FY 2013 Enacted Budget. Since July 1, 2007, the State has reduced the FTE employed by 1,435.5.

STATE RETIREMENT SYSTEMS

(See the Glossary at the end of this section for the definitions of certain capitalized terms used in this section.)

Background Information Regarding the State Retirement Systems

The State, through the Employees' Retirement System of Rhode Island ("ERSRI"), administers and contributes to three defined-benefit retirement plans - the Employees' Retirement System (the "ERS"), the Judicial Retirement Benefits Trust (the "JRBT"), and the State Police Retirement Benefits Trust (the "SPRBT"). The ERS, JRBT and SPRBT are collectively referred to herein as the "Plans". ERSRI acts as a common investment and administrative agent for the Plans. ERSRI is administered by the State of Rhode Island Retirement Board (the "Retirement Board"), which was authorized, created and established in the Office of the General Treasurer as an independent retirement board to hold and administer, in trust, the funds of ERSRI.

On November 18, 2011, the Rhode Island Retirement Security Act of 2011 ("RIRSA") was signed into law. RIRSA, which took effect July 1, 2012, makes significant changes to the state retirement systems administered by the ERSRI. Some of the significant changes are as follows:

- Cost of Living Adjustments are suspended for retired state employees, teachers, judges and state police until an 80% funding level is achieved in the aggregate for ERS, JRBT and SPRBT. After the suspension, future COLAs/benefit adjustments will be applied to the first $25,000 of retirement income (indexed annually) and will be based on market performance of the plan assets determined by subtracting 5.5% from the 5 year average investment return of the aggregate funds with a maximum adjustment of 4% and a minimum adjustment of 0%. During the suspension period, a benefit adjustment, if warranted under the foregoing formula, will be awarded at five-year intervals.

- For state employees and teachers the defined benefit pension plan has been transitioned into a combination defined benefit/defined contribution plan. Benefit accruals under the defined benefit plan have been reduced to annual accrual rate of 1% multiplied by an employee's highest 5 year average compensation. For all state employees and approximately 50% of teachers (those participating in Social Security), the defined contribution plan requires a 5% employee contribution and 1% employer contribution. For teachers not participating in Social Security, the defined contribution plan requires a 7% employee contribution and 3% employer contribution.

- For state employees and teachers, the retirement age under the defined benefit pension plan is extended to Social Security normal retirement age, with transition rules easing the implementation of the new retirement age for longer service employees.

- For state police, the retirement age is extended to 25 years of service for officers with fewer than twenty (20) years of service on June 30, 2012.

As a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers reported in the June 30, 2010 valuation has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. The projected employer contribution has been reduced from $622 million as reported in the 2010 actuarial valuation report to $380 million as reported in the June 30, 2011 valuation. The GASB funded ratio improved from approximately 48% as of June 30, 2010 to approximately 57.4% as of June 30, 2011.

As reported in further detail below, a number of unions representing state employees and teachers filed a lawsuit in State Court in May 2010 challenging pension reforms made by the Rhode Island General Assembly in 2009 and 2010. In addition, in June 2012, certain retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA").

The State continues to face challenges in addressing the unfunded pension liability of ERSRI. This liability is the product of a number of factors, including; (i) investment performance during the last decade that was significantly lower than the actuarial assumed rate of return, (ii) certain demographic actuarial assumptions proving to be inconsistent with actual experience (such as retiree longevity), (iii) improvements in pension benefits to members prior to 1991 without corresponding funding, (iv) key decisions made prior to 2002 by the legislature and Retirement Board (as defined below) which had the effect of lowering contributions to ERSRI, and (v) other overly optimistic actuarial assumptions. The magnitude of the unfunded pension liability together with significant costs related to postemployment healthcare benefits, pose a significant financial challenge to the State.

The amounts and percentages set forth in this section relating to ERSRI, including, for example, Actuarial Value of Assets, Actuarial Accrued Liabilities, Unfunded Actuarial Accrued Liability, Funded Ratios, and Annual Required Contribution (or "ARC"), are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions speak as of their dates, and are subject to change, any one of which could cause a significant change in the Unfunded Actuarial Accrued Liability.

An adverse judgment to the State rendered in the litigation could significantly increase the State's Annual Required Contribution ("ARC"). If there were to be a significant increase in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Employees' Retirement System

The ERS was established under section two of chapter 2334 of the Rhode Island Public Laws of 1936 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State under chapters 8 to 10 of title 36 of the State of Rhode Island General Laws (the "RIGL"), and public school teachers under chapters 15 to 17 of title 16 of the RIGL.

The ERS, the largest of the Plans, is a multiple-employer, cost-sharing, public employee retirement plan covering eligible state employees as well as teachers and certain other employees employed by local school districts. The ERS provides retirement, disability and death benefit coverage. Employer contributions for state employees are made only by the State. Employer contributions for teachers are made by both local education agencies ("LEAs") and the State, except that the State does not contribute to the Teachers' Survivors' Plan. For teachers, the State contributes 40% of the employer contribution rate and LEAs contribute 60% (this split is further adjusted to account for the State's repayment of amounts taken from the trust in the early 1990s and in the case of five cities or towns that did not participate in the 1990 early retirement window for teachers). Separate contribution rates are determined for state employees and for teachers. Prior to July 1, 2012, State employees and teachers contributed 8.75% and 9.50% of their salary per year to the ERS, respectively. Under RIRSA, employee contributions to ERS for both state employees and teachers are reduced to 3.75% effective July 1, 2012.

Prior to July 1, 2012, ERS provides a two-tier benefit structure (known as "Schedule A Benefits" and "Schedule B Benefits"). Schedule A Benefits were available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule B Benefits were provided to members who had less than ten years of contributory service on or before July 1, 2005. Effective October 1, 2009, Schedule B Benefits became applicable to future service of all active employees except those employees who were eligible to retire as of September 30, 2009. Effective July 1, 2012, all members accrue future benefits at a rate of 1% of high 5 year average compensation.

To fund the future benefits owed to employees in a defined-benefit structure, ERSRI invests money contributed by both the employer and the employees during the employees' employment. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts determined by an actuarial process to be necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. Typically, the funds contributed by the employer and employee are invested in a mix of equity investments and fixed income vehicles, such as bonds.

Under Section 36-10-2 of the RIGL, the State is required to make contributions to the Plans, as computed annually by an actuary. Gabriel, Roeder, Smith & Company is the actuary currently employed by the ERSRI (the "Actuary"). The Retirement Board's current policy regarding the actuarial determination of the State's contribution rates is that the contribution rates determined by an Actuarial Valuation become effective two years after the valuation date.

Judicial Retirement Benefits Trust (JRBT)

The JRBT, a single-employer plan, was established under Sections 8-8.2-7, 8-3-16, 8-8-10.1, and 28-30-18.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances to judges appointed after December 31, 1989. Prior to July 1, 2012, State judges contributed 8.75% of their salary per year to the JRBT. Effective July 1, 2012, the judges' contribution rate increased to 12% of salary per year. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the judiciary. Pensions for 59 judges and their beneficiaries appointed prior to December 31, 1989 are funded on a pay-as-you-go basis and have an annualized cost of $6,104,809 as of fiscal year 2011. Effective July 1, 2012, active judges in the pay-go system will also contribute 12% of their salary except Supreme Court Judges as of June 30, 2012 will contribute 8.75% of their salary.

State Police Retirement Benefits Trust (SPRBT)

The SPRBT, a single-employer plan, was established under Section 42-28-22.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances, disability and death benefit coverage to State Police officers originally hired after July 1, 1987. State police officers contribute 8.75% of their salary per year to the SPRBT. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the State Police. Pensions for 270 State police officers and their beneficiaries hired prior to July, 31, 1987 are funded on a pay-as-you-go basis and have an annualized cost of $16,538,236 as of fiscal year 2011.

The JRBT and SPRBT are significantly smaller retirement plans than the ERS. Assets for the Plans are held in trust and are commingled with other programs and plans for investment purposes. For further discussion of the State's investment of Plan assets, see "Asset Allocation Policy" and Table R-1 below.

Other Background Information

The State also administers but does not contribute to the Municipal Employees' Retirement System (MERS), an agent multi-employer, defined-benefit pension plan. As part of the new RIRSA legislation, changes were made to the MERS similar to the changes made to the state supported systems. Effective July 1, 2012, MERS will be converted from a defined benefit plan to a combination defined benefit/defined contribution plan with plan features largely identical to the ERS plan. Public safety employees covered by MERS remain in a defined benefit plan with an increased eligible retirement date of age 55 and 25 years of service.

In addition, 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. This retirement program for education employees is a defined contribution plan to which the State contributes 9.5% of employee compensation.

The State also administers post-employment health care plans covering state employees, legislators, judges, State police officers and certain public school teachers. For more details about the State's retiree health plans, see "RETIREE HEALTH CARE BENEFITS" below.

Annual Reports and Audit Reports

The annual reports for ERSRI, issued for each fiscal year, are available at ERSRI's website. The audited financial statements for ERSRI for the fiscal year ended June 30, 2011 are available at the website of the State Auditor General.

As a part of the auditing process, the State's Auditor General made certain management comments which are reflected in the State Auditor General's report for the fiscal year ended June 30, 2011 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*" (the "Report"). A copy of the Report can be found at the website of the State Auditor General.

Asset Allocation Policy

The State Investment Commission (the "Commission") establishes the long-term asset allocation policy (the "Asset Allocation Policy") and monitors investment performance of the Plans' assets. An asset/liability study is conducted periodically as requested by the Commission, usually every two to three years, to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. The Asset Allocation Policy incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the ERSRI. Table R-1 sets forth the asset allocation targets that were in place at June 30, 2011 and the actual percentage and fair value of the assets in the portfolio at June 30, 2011.

TABLE R-1
ASSET ALLOCATION TARGETS, ACTUAL PERCENTAGES AND FAIR VALUES

Type of Investment	Targets for Fiscal Year 2011	Actual Percentage and Fair Value at June 30, 2011*	
Domestic Equity	36.0%	35.8%	$2,666.0
International Equity	17.5%	18.1%	$1,344.0
US Fixed Income	22.0%	18.0%	$1,341.0
Real Return	10.0%	3.3%	$244.0
Alternative Investments	7.5%	8.2%	$607.0
Real Estate	5.0%	5.5%	$244.0
Cash	2.0%	11.1%	$829.0

Source: Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2011 (Management's Discussion and Analysis, Investments, page 3).

* Dollar amounts in millions.

The Commission oversees all investments made by the State, including those made for the ERSRI. Section 35-10-11 of the RIGL requires that all investments be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

In 1994 and 1995, the assets of the SPRBT and JRBT, respectively, were pooled with the assets of the ERS for investment purposes only. The custodian bank holds assets of the ERSRI in a pooled trust and each Plan holds units in the trust. The number of units held by each Plan is a function of each Plans' respective contributions to, or withdrawals from, the trust.

The membership and unfunded liabilities of the JRBT and SPRBT are less than 1% of the membership and unfunded liabilities of the ERS. Therefore, the discussion throughout this section will focus primarily on the ERS.

ERS Membership

Table R-2 shows the current membership and member contributions for each of the Plans as provided by the June 30, 2011 Actuarial Valuation.

TABLE R-2
MEMBERSHIP AND MEMBER CONTRIBUTIONS

	Retirees And Beneficiaries	Active	Inactive	Total By Plan	Member Contributions (As A Percentage Of Salary-*effective 7/1/12*)
ERS State Employees	11,271	11,233	2,650	25,154	3.75%
ERS Teachers	10,347	13,381	2,689	26,417	3.75%
Total By Type	21,618	24,614	5,339	51,561	

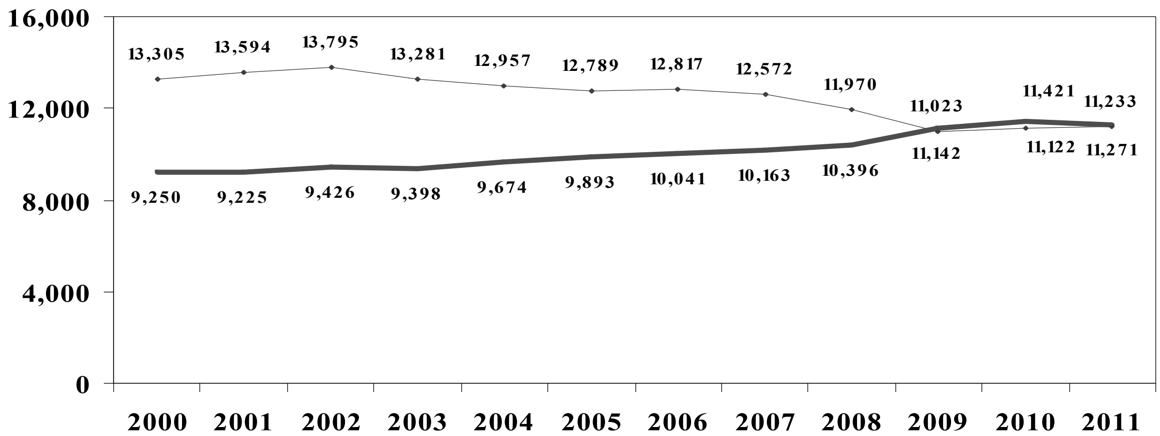
Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Executive Summary, pages 2-3).

Table R-2 demonstrates a growing concern with respect to state employees and teachers. For state employees, there are now more retirees and beneficiaries than active members. For teachers, there are still more active members than retirees and beneficiaries, but current trends indicate a likelihood that retirees and beneficiaries will outnumber active members in the near future if the active population continues to decline.

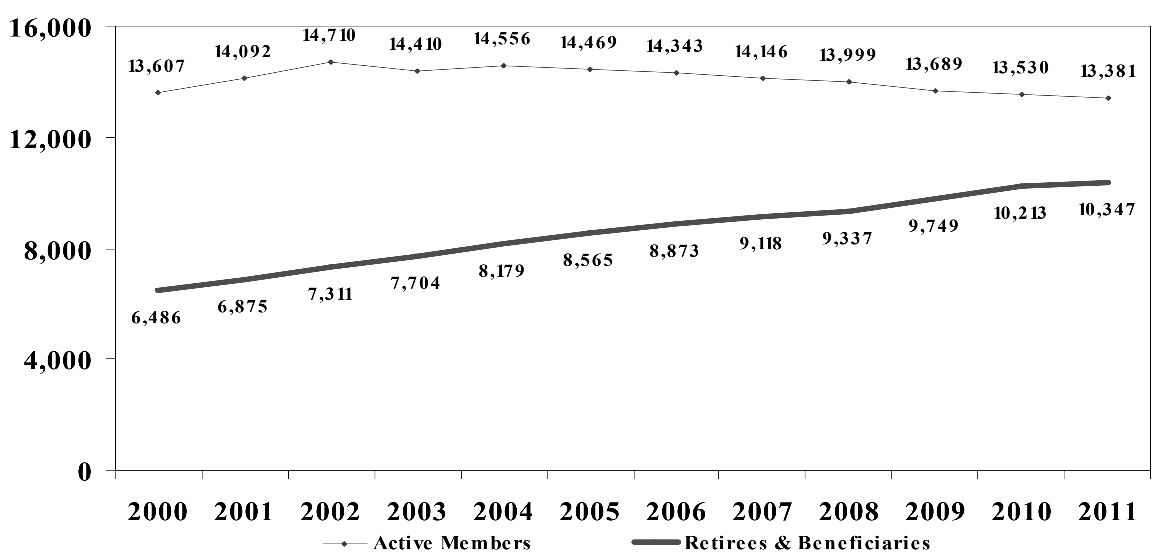
Chart R-1 below provides a graphical representation of active membership and retiree and beneficiary data for state employees and teachers from 2000 through 2011.

CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



TEACHERS



Source: ERSRI Actuarial Valuations as from June 30, 2000 to June 30, 2011 executive summaries.

The trends expressed by the graphs in Chart R-1 are a concern for the State. For state employees, there are approximately the same number of retirees and beneficiaries. There has been a sharp decrease in active members for state employees over the last ten years. While the downward trend for teachers has been more gradual, it is likely that retirees and beneficiaries will soon outnumber active members if the active population continues to decline. The decrease in active membership has been the result of reductions in the size of the overall workforce and demographic trends. These developments significantly increase the burden upon contributions from current employees, who are receiving lower salary increases than projected and unpaid furlough days, and from the State and LEAs, where total pension-related contributions for state employees and teachers is currently 23% of salary in fiscal year 2012.

Actuaries and the Actuarial Valuation

Each fiscal year, the Actuary produces a report called the "Actuarial Valuation" in which the Actuary provides the Actuarial Value of Assets and Actuarial Accrued Liability. To determine the Plans' Actuarial Value of Assets and Actuarial Accrued Liabilities, the Actuary employs methodologies required in part by statute as more fully discussed below under the section entitled "Actuarial Methods". The Actuary certifies that its work conforms to generally accepted actuarial principles and practices, in accordance with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and complies with the requirements of State law, pertinent sections of the Internal Revenue Code, ERISA, and the Governmental Accounting Standards Board ("GASB").

The primary purpose of the Actuarial Valuation is to determine how much the State should contribute during the upcoming fiscal year in order to pay current and future benefits due under the Plans. Public employees contribute a fixed percentage of their salaries to the Plans. Annual actuarially determined changes in contribution rates generally affect only the employer contribution.

The amount that the employer is required to contribute in a particular fiscal year to satisfy the Plans' funding requirements is referred to as the Annual Required Contribution, or ARC. Under Section 36-10-2 of the RIGL, the State is required to make the ARC by annually appropriating an amount equal to a percentage of the covered compensation paid to the active membership, as computed by the Actuary and certified by the Retirement Board. In computing the amount of the ARC, the Actuary determines the value of the contributions made by the Plans' members, income on ERSRI investments, and other income of the ERSRI. The Actuary then computes the ARC by determining the amount that will be necessary to (i) pay the actuarial estimate of the Normal Cost for the next succeeding fiscal year and (ii) amortize the Unfunded Actuarial Accrued Liability or "UAAL" of the Plans. Under RIRSA, the amortization period was changed from a closed 30 year schedule with 19 years remaining to a closed 25 year schedule. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. Section 36-10-2.1 of the RIGL requires the Actuary to utilize the entry age normal ("EAN") actuarial cost method in computing the ARC. The EAN cost method is defined in the amended Accounting Standard No. 27, now No. 68 of the Governmental Accounting Standards Board. The ARC is intended to be sufficient to pay the Normal Cost and to amortize the UAAL in payments representing a level percentage of member compensation over the remaining portion of the fixed amortization period. Under State law, it is intended that by the end of the fixed amortization period there will be no UAAL in the Plans and is discussed further in the section entitled "Determination of Employer's Contributions & Historical Contribution Rates" below. For more information on the Normal Cost and EAN actuarial cost method, see "Actuarial Methods" below.

The second key purpose of the Actuarial Valuation is to determine a Plan's funding progress by examining how each Plan's assets compare with its liabilities. The funding progress can be described as a Funded Ratio, or as the Funded Status. If assets in a defined-benefit plan are greater than liabilities, the Funded Ratio is over 100% and the Funded Status is the amount of over-funding, called the surplus. If assets are less than liabilities, the Funded Ratio is under 100%, and the Funded Status is the amount of under-funding, called the unfunded liability. The Funded Ratio and Funded Status can also be presented based on the market value of assets as opposed to actuarial value of assets in a plan for any given year. The lower the Funded Ratio for the assets in a plan, the greater the unfunded liability is as compared to the value of the assets in the plan.

To determine the ARC and the funding progress of the Plans, the Actuary calculates both the Actuarial Accrued Liability and the Actuarial Value of Assets of the Plans. The Actuarial Accrued Liability is calculated using a variety of demographic and other data (such as employee age, salary and service credits) and actuarial assumptions (such as salary increases, interest rates, turnover, mortality and disability). Periodically, the Actuary performs an experience review to validate the actuarial assumptions used by the Plans as compared to the actual experience of the Plans. Experience studies were performed for the fiscal years ended June 30, 1997, 2000, 2003, and 2006, and for the six-year period ending June 30, 2010. Upon the completion of an experience study, the Actuary delivers a report of its findings and makes certain recommendations regarding the actuarial assumptions to the Retirement Board. The Retirement Board then considers the Actuary's recommendations and determines whether to alter any of the actuarial assumptions. For further discussion on the most recent experience study conducted for the six-year period ending June 30, 2010, see "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost" below. For a discussion of the methods and assumptions used to calculate the Actuarial Accrued Liability and Actuarial Value of Assets, see the sections entitled "Actuarial Methods" and "Actuarial Assumptions" below.

Actuarial Methods

As described above, the Actuary uses the EAN actuarial cost method to determine the ARC, which is the amount necessary to (i) pay the Normal Cost and (ii) amortize the UAAL over the amortization period. Under the RIRSA legislation, the amortization period was modified to a closed twenty-five (25) year period. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods.

Normal Cost

Under the EAN actuarial cost method, the Normal Cost is the present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment. For pension systems such as ERSRI with multiple tiers of benefits in which new members (members who will replace the current membership as they retire) have a different benefit structure than a portion of the current population, there are two variations of the method which are used to determine the Normal Cost. Effective with the new RIRSA legislation, ERSRI changed from the Ultimate Normal Cost Method variation of EAN to the Phase-In Method variation. Under the Phase-In–Method the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual that are then added together. Under this method, the Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced. Under the Ultimate Normal Cost Method previously used by ERSRI, the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. The Phase-In Method is the recommended variation and using this variation achieves consistency between accounting/reporting and funding.

Actuarial Accrued Liability

Actuarial Accrued Liability is that portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs. The actuarial present value of benefits for active employees is determined by discounting the projected benefits for each member back to the valuation date using the assumed investment rate of return as the discount rate. As of the June 30, 2010 valuation, the investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% investment rate of return was adopted in accordance with the recommendation of the Actuary. Pension Consulting Alliance, Inc. ("PCA"), the investment consultant to the Commission, advised the Retirement Board that based on PCA's ten-year capital market assumptions the probability of achieving a 7.50% compounded return over the next 10 years was 42.5%. The 7.50% rate first became effective for the June 30, 2010 valuation.

For active members, projected benefits are based on the member's age, service, sex, and compensation. Projected benefits are also based on certain actuarial assumptions such as the member's death, disability, and termination of employment prior to becoming eligible for a retirement benefit. Future salary increases are also taken into consideration. For more information regarding the actuarial assumptions, see "Actuarial Assumptions" and Table R-14 below.

The actuarial present value of expected benefits for all active members is added to the actuarial present value of the expected future payments of retired participants and beneficiaries to obtain the actuarial present value of all expected benefits. The actuarial present value of future normal costs is computed separately for each individual and then added together. In conformity with GASB 25 (as defined and discussed below), liabilities for future members are not included in the calculation of the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the actuarial value of the assets available in the pension plan to pay benefits. The Actuarial Value of Assets in a plan may be higher or lower than the market value of assets at any given time. In calculating the Actuarial Value of Assets, the State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. For the fiscal year ended June 30, 2011, the State used the assumed investment rate of return of 7.50% and the market value of assets (adjusted for receipts and disbursements during the year) to determine expected investment income. The actual returns, based on the market value of assets, are computed net of administrative and investment expenses.

Table R-4 and R-5 show the calculation of the Actuarial Value of Assets for state employees and teachers as of June 30, 2011 and also show the difference between the market value of assets and the Actuarial Value of Assets.

TABLE R-4
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(STATE EMPLOYEES)

		Year Ending June 30, 2011
1.	Market value of assets at beginning of year	$ 2,083,616,670
2.	Net new investments	
	a. Contributions	$ 181,263,621
	b. Benefits paid	(312,656,391)
	c. Refunds	(4,977,665)
	d. Transfers	(277,496)
	e. Subtotal	(136,647,931)
3.	Market value of assets at end of year	$ 2,337,532,264
4.	Net earnings (3-1-2) (includes misc revenues)	$ 390,563,525
5.	Assumed investment return rate for fiscal year	7.50%
6.	Expected return	$ 151,146,953
7.	Excess return (4-6)	$ 239,416,572

8. Excess return on assets as of June 30, 2011:

Period End	Excess Return	Percent Deferred (1)	Deferred Amount (2)
June 30, 2007	$ 238,155,576	0%	$ 0
June 30, 2008	(388,486,957)	20%	(77,697,391)
June 30, 2009	(710,768,870)	40%	(284,307,548)
June 30, 2010	107,188,578	60%	64,313,147
June 30, 2011	239,416,572	80%	191,533,258
			$ (106,158,534)

9.	Actuarial value of assets as of June 30, 2011 (Item 3 - Item 8)	$ 2,443,690,798
10.	Ratio of actuarial value to market value	104.5%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 8A, page 20).

(1) "Percent Deferred" refers to the percentage of the excess return (or loss) that is not recognized in the current year. For example, all excess return for the fiscal year ended June 30, 2007 is reflected in the Actuarial Value of Assets as of June 30, 2011 in Line 9, whereas 80% of the losses for the fiscal year ended June 30, 2011 have been deferred and only 20% of those losses are reflected in the Actuarial Value of Assets as of June 30, 2011 in Line 9.

(2) "Deferred Amount" refers to the actual market value of gains or losses that will be recognized in calculating the Actuarial Value of Assets for the fiscal years ending after June 30, 2011.

TABLE R-5
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(TEACHERS)

		Year Ending June 30, 2011
1.	Market value of assets at beginning of year	$ 3,196,511,775
2.	Net new investments	
	a. Contributions	$ 278,105,201
	b. Benefits paid	(451,208,510)
	c. Refunds	(3,912,537)
	d. Transfers	215,531
	e. Subtotal	(176,800,315)
3.	Market value of assets at end of year	$ 3,626,646,745
4.	Net earnings (3-1-2) (includes misc revenues)	$ 606,935,285
5.	Assumed investment return rate for fiscal year	7.50%
6.	Expected return	$ 233,108,371
7.	Excess return (4-6)	$ 373,826,914

8. Expected return on assets as of June 30, 2011:

Period End	Excess Return	Percent Deferred (1)	Deferred Amount (2)
June 30, 2007	356,579,946	0%	$ 0
June 30, 2008	(582,055,743)	20%	(116,411,149)
June 30, 2009	(1,078,273,255)	40%	(431,309,302)
June 30, 2010	164,829,718	60%	98,897,831
June 30, 2011	373,826,914	80%	299,061,531
			$ (149,761,089)

9.	Actuarial value of assets as of June 30, 2011 (Item 3 - Item 8)	$ 3,776,407,834
10.	Ratio of actuarial value to market value	104.1%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 8B, page 21).

(1) "Percent Deferred" refers to the percentage of the excess return (or loss) that is not recognized in the current year. For example, all excess return for the fiscal year ended June 30, 2007 is reflected in the Actuarial Value of Assets as of June 30, 2011 in Line 9, whereas 80% of the losses for the fiscal year ended June 30, 2011 have been deferred and only 20% of those losses are reflected in the Actuarial Value of Assets as of June 30, 2011 in Line 9.

(2) "Deferred Amount" refers to the actual market value of gains or losses that will be recognized in calculating the Actuarial Value of Assets for the fiscal years ending after June 30, 2011.

Unfunded Actuarial Accrued Liability

The UAAL is the difference between the (i) Actuarial Accrued Liability and (ii) Actuarial Value of Assets. In other words, the UAAL represents the value of benefits accrued under the Plans that are not presently funded by assets in the Plans. One of the key purposes of the Actuarial Valuation is to determine a Plan's funding progress or overall health by examining how the Plan's assets compare with its liabilities. See "Actuaries and the Actuarial Valuation" above. The UAAL and the Funded Ratio are used to measure the financial health of defined-benefit plans. From year to year, if the UAAL decreases and the Funded Ratio increases, a defined-benefit plan's ability to meet future obligations is showing progress. If such progress continues, it should be able to meet its future obligations when due. Conversely, an increasing UAAL and decreasing Funded Ratio indicates that a plan is less healthy and that its assets may be insufficient to meet its future obligations when due.

Tables R-6 and R-7 below show the schedule of funding progress for ERS, SPRBT, and JRBT, as prescribed by Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans ("GASB 25"). Tables R-6 and R-7 display trend information of funded ratios using both Actuarial Value of Assets and market value of assets.

As set forth in Table R-6, as of June 30, 2011, the UAAL for state employees was $1,811,671,665 and the Actuarial Funded Ratio was 57.4%. As of June 30, 2011, the UAAL for teachers was $2,549,534,117 and the Actuarial Funded Ratio was 59.7%.

Tables R-6 and R-7 indicate that the Plans are currently underfunded. Significant increases in the ARC may be required to reduce the UAAL by the end of the fixed amortization period and there can be no assurances that the State will be able to fund its ARC in the future.

TABLE R-6
SCHEDULES OF FUNDING PROGRESS (ERSRI)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
STATE EMPLOYEES								
6/30/2001	$2,406,278,029	$3,089,247,738	$ 682,969,709	77.9%	$539,015,218	126.7%	$2,070,325,723	67.0%
6/30/2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	585,888,754	158.5%	1,831,019,880	55.8%
6/30/2003(1)	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%	1,811,009,063	51.5%
6/30/2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%	2,068,012,733	56.0%
6/30/2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%	2,218,892,001	57.7%
6/30/2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%	2,409,378,699	58.3%
6/30/2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%	2,791,619,718	64.4%
6/30/2008(2)	2,700,368,568	4,331,504,516	1,631,135,948	62.3%	587,500,000	277.6%	2,575,270,868	59.5%
6/30/2009	2,646,081,020	4,482,244,291	1,836,163,271	59.0%	605,872,460	303.1%	1,954,618,465	43.6%
6/30/2010(3)	2,532,090,798	4,651,175,973	2,119,085,175	54.4%	632,503,225	335.0%	2,083,616,670	44.8%
6/30/2010	2,532,090,798	5,232,541,325	2,700,450,527	48.4%	630,246,973	428.5%	2,083,616,670	39.8%
6/30/2010(4)	2,532,090,798	4,234,409,675	1,702,318,877	59.8%	630,246,973	270.1%	2,083,616,670	49.1%
6/30/2011	2,443,690,798	4,255,362,463	1,811,671,665	57.4%	633,146,197	286.1%	2,337,532,264	54.9%
TEACHERS								
6/30/2001	$3,619,863,426	$4,679,288,010	$1,059,424,584	77.4%	$748,460,527	141.5%	$3,111,666,873	66.5%
6/30/2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%	2,754,225,451	56.7%
6/30/2003(1)	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%	2,729,820,882	51.1%
6/30/2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%	3,131,927,525	55.6%
6/30/2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%	3,364,100,154	56.8%
6/30/2006	3,394,085,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%	3,623,938,636	56.2%
6/30/2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%	4,185,381,396	62.0%
6/30/2008(2)	4,044,954,378	6,632,016,708	2,587,062,330	61.0%	985,898,174	262.4%	3,857,373,705	58.2%
6/30/2009	4,008,931,337	6,900,963,108	2,892,031,771	58.1%	987,463,633	292.9%	2,962,026,384	42.9%
6/30/2010(3)	3,873,118,262	7,150,987,128	3,277,868,866	54.2%	992,874,301	330.1%	3,196,511,775	44.7%
6/30/2010	3,873,118,262	8,006,313,862	4,133,195,600	48.4%	989,236,951	417.8%	3,196,511,775	39.9%
6/30/2010(4)	3,873,118,262	6,266,400,444	2,393,282,182	61.8%	989,236,951	241.9%	3,196,511,775	51.0%
6/30/2011	3,776,407,834	6,325,941,951	2,549,534,117	59.7%	1,002,656,294	254.3%	3,626,646,745	57.3%

Source: For fiscal years 2003-2010, see ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 3, page 15). For fiscal years 2001-2002, see Annual Financial Report for the fiscal year ending June 30, 2007 (Required Supplementary Information, Schedules of Funding Progress, page 47). The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2003 actuarial value after adopting Article 7, Substitute A as amended.

(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).

(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.

(4) Restated June 30, 2010 actuarial value after reflecting the Rhode Island Retirement Security Act of 2011.

TABLE R-7
SCHEDULES OF FUNDING PROGRESS (SPRBT and JRBT)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
SPRBT (STATE POLICE)								
6/30/2004	$24,767,014	$32,689,173	$ 7,922,160	75.8%	$11,421,880	69.4%	$24,495,990	74.9%
6/30/2005	29,616,896	37,510,992	7,894,096	79.0%	13,225,400	59.7%	30,457,966	81.2%
6/30/2006	36,314,689	42,216,142	5,901,453	86.0%	13,474,588	43.8%	38,131,989	90.3%
6/30/2007(1)	45,996,910	60,427,947	14,431,037	76.1%	15,836,354	91.1%	50,445,259	83.5%
6/30/2008	54,927,390	69,029,513	14,102,123	79.6%	16,698,764	84.5%	51,883,909	75.2%
6/30/2009	60,232,045	75,480,005	15,247,960	79.8%	17,096,202	89.2%	45,747,494	60.6%
6/30/2010(3)	65,760,284	83,099,931	17,339,647	79.1%	19,715,070	88.0%	56,464,727	67.9%
6/30/2010	65,760,284	94,300,302	28,540,018	69.7%	19,715,070	144.8%	56,464,727	59.9%
6/30/2010(4)	65,760,284	73,048,680	7,288,396	90.0%	19,715,070	37.0%	56,464,727	77.3%
6/30/2011	73,151,768	74,185,705	1,033,937	98.6%	19,711,694	5.2%	72,479,031	97.7%
JRBT (JUDGES)								
6/30/2004	$16,019,053	$21,845,744	$ 5,826,691	73.3%	$ 5,637,865	103.3%	$15,844,213	72.5%
6/30/2005	19,347,372	22,250,728	2,903,356	87.0%	5,684,585	51.1%	19,892,509	89.4%
6/30/2006	23,873,009	27,504,102	3,631,093	86.8%	6,313,069	57.5%	25,055,824	91.1%
6/30/2007(1)	29,630,637	35,355,326	5,724,689	83.8%	6,451,666	88.7%	32,548,957	92.1%
6/30/2008(2)	34,670,394	38,115,602	3,445,208	91.0%	6,601,889	52.2%	32,783,006	86.0%
6/30/2009	36,839,221	41,738,040	4,898,819	88.3%	6,843,454	71.6%	27,729,085	66.4%
6/30/2010(3)	38,074,287	44,605,741	6,531,454	85.4%	7,461,120	87.5%	32,267,469	72.3%
6/30/2010	38,074,287	48,941,360	10,867,073	77.8%	7,461,120	145.6%	32,267,469	65.9%
6/30/2010(4)	38,074,287	46,641,701	8,567,414	81.6%	7,461,120	114.8%	32,267,469	69.2%
6/30/2011	40,105,919	46,594,407	6,488,488	86.1%	8,474,716	76.6%	39,404,943	84.6%

Source: For fiscal years 2004-2009, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2010 (Required Supplementary Information, Schedules of Funding Progress, page 38). For fiscal year 2010, see SPRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11) and JRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11). The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2007 actuarial value after 2008 amendment to the RIGL.

(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).

(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.

(4) Restated after reflecting the Rhode Island Retirement Security Act of 2011.

Determination of Employer's Contributions & Historical Contribution Rates

Accounting requirements for the Plans are set by GASB 25. GASB 25 requires that defined-benefit plans calculate an ARC, and, if actual contributions made by the State to its Plans 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. For purposes of amortizing its UAAL, effective with the June 30, 2011 valuation, the State uses a closed twenty-four (24) year period. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. The Actuary considers the funding period being used in connection with the Plans to be reasonable and in accordance with GASB 25 as discussed below.

The State computes its required contribution on a level percent of payroll approach. Under this approach, GASB 25 provides that the payroll growth assumption may not anticipate future membership growth. The employer contribution rate determined by the State's Actuarial Valuation is not effective until two years after the valuation date. The determination of the contribution rate reflects this deferral. The UAAL and covered payroll are projected forward for two years, and the Actuary then determines the amortization charge required to amortize the UAAL over the remaining amortization period from that point.

Tables R-8 and R-9 below show the State's calculated contribution rates for state employees and teachers as of June 30, 2011. The payroll growth rate used in the amortization calculations is determined by the Retirement Board and does not include any allowance for membership growth in accordance with GASB 25. See "Actuarial Assumptions" below.

TABLE R-8
DEVELOPMENT OF CONTRIBUTION RATE (STATE EMPLOYEES)

	June 30, 2011	June 30, 2010	
	Under RIRSA	Under RIRSA	Pre-RIRSA as Disclosed in Prior Year's Report
	(1)	(2)	(3)
1. Compensation			
(a) Supplied by ERSRI	$ 617,247,186	$ 599,879,497	$ 599,879,497
(b) Adjusted for one-year's pay increase	633,146,197	630,246,973	630,246,973
2. Actuarial accrued liability	4,255,362,463	4,234,409,675	5,232,541,325
3. Actuarial value of assets	2,443,690,798	2,532,090,798	2,532,090,798
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,811,671,665	1,702,318,877	2,700,450,527
5. Remaining amortization period at valuation date	24	25	19
6. Contribution effective for fiscal year ending:	June 30, 2014	June 30, 2013	June 30, 2013
7. Payroll projected for two-year delay	681,522,523	668,633,332	678,401,780
8. Amortization of UAAL	121,897,481	108,837,080	228,591,347
9. Normal cost			
(a) Total normal cost rate	9.49%	9.36%	11.39%
(b) Employee contribution rate	4.33%	4.22%	8.75%
(c) Employer normal cost rate (a - b)	5.16%	5.14%	2.64%
10. Employer contribution rate as percent of payroll			
(a) Employer normal cost rate	5.16%	5.14%	2.64%
(b) Amortization payments (8 / 7)	17.89%	16.04%	33.70%
(c) Total (a + b)	23.05%	21.18%	36.34%
11. Estimated employer contribution amount (7 * 10(c))	$ 157,090,942	$ 141,616,540	$ 246,531,207

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 1A, page 11).

TABLE R-9

DEVELOPMENT OF CONTRIBUTION RATE (TEACHERS)

	June 30, 2011	June 30, 2010	
	Under RIRSA	Under RIRSA	Pre-RIRSA as Disclosed in Prior Year's Report
	(1)	(2)	(3)
1. Compensation			
(a) Supplied by ERSRI	$ 965,764,287	$ 936,748,851	$ 936,748,851
(b) Adjusted for one-year's pay increase	1,002,656,294	989,236,951	989,236,951
2. Actuarial accrued liability	6,325,941,951	6,266,400,444	8,006,313,862
3. Actuarial value of assets	3,776,407,834	3,873,118,262	3,873,118,262
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,549,534,117	2,393,282,182	4,133,195,600
5. Remaining amortization period at valuation date	24	25	19
6. Contribution effective for fiscal year ending:	June 30, 2014	June 30, 2013	June 30, 2013
7. Payroll projected for two-year delay	1,079,265,501	1,054,757,246	1,064,820,837
8. Amortization of UAAL	169,062,513	150,006,446	350,610,223
9. Normal cost			
(a) Total normal cost rate	8.77%	8.96%	11.82%
(b) Employee contribution rate	3.75%	3.75%	9.50%
(c) Employer normal cost rate (a - b)	5.02%	5.21%	2.32%
10. Employer contribution rate as percent of payroll			
(a) Employer normal cost rate	5.02%	5.21%	2.32%
(b) Amortization payments (8 / 7)	15.66%	14.08%	32.93%
(c) Total (a + b)	20.68%	19.29%	35.25%
11. Estimated employer contribution amount (7 * 10(c))	$ 223,192,106	$ 203,462,673	$ 375,349,345

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 1B, page 12).

Pursuant to Section 36-10-2 of the RIGL, the State makes its ARC based upon the Actuarial Valuation. The method for determining the ARC, as set forth in Section 36-10-2 of the RIGL, conforms to the requirements of GASB 25. The State has made 100% of its ARC to the Plans for each of the past fifteen years. However, the Plans remain severely underfunded (as evidenced by the Plans' UAAL). See Tables R-6 and R-7. It is important for prospective purchasers of the Bonds to acknowledge that while the State has made 100% of its ARC payments in each of the last fifteen years, several factors over the course of those fifteen years, and in many years prior to that period, have contributed to the Plans' UAAL. Over the course of many years, key decisions were made by the legislature and Retirement Board that resulted in lower contributions to ERSRI. There were also certain improvements made to the Plans' benefits without providing sufficient funding to pay for such improvements. Certain demographic actuarial assumptions, such as retiree longevity, and other actuarial assumptions, including an assumed investment rate of return, have also played significant roles in contributing to the Plans' UAAL. The principal factors contributing to the growth of the UAAL are (i) investment experience, (ii) interest owed on the UAAL, (iii) liability experience, (iv) changes to actuarial assumptions, and (v) legislative changes prior to 1991.

TABLE R-10
SCHEDULES OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITY

ERS

Fiscal	State Employees		Teachers (State)		Teachers (LEAs)	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2001	$44,540,998	100%	$35,365,234	100%	$48,153,386	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2003	45,141,250	100%	38,242,690	100%	55,504,739	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2007	118,300,522	100%	70,531,472	100%	109,415,227	100%
2008	131,560,248	100%	82,455,777	100%	122,906,860	100%
2009	126,297,706	100%	73,600,069	100%	115,234,100	100%
2010	123,547,738	100%	68,542,956	100%	109,566,352	100%
2011	126,560,644	100%	70,286,262	100%	113,422,000	100%

Source: For fiscal years 2005-2011, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2011 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 39). For fiscal years 2001-2004, see Annual Financial Report for the fiscal year ending June 30, 2006 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 35).

TABLE R-11
HISTORY OF EMPLOYER CONTRIBUTION RATES

Valuation Date as of June 30,	Fiscal Year Ending June 30,	Employer Contribution Rate as a Percentage of Covered Payroll
State Employees		
2001	2004	9.60%
2002	2005	11.51%
2003	2006	14.84%
2004	2007	18.40%
2005	2008	20.77%
2006	2009	21.64%(1)
2007	2010	20.78%(2)
2008	2011	20.78%
2009	2012	22.98%
2010	2013	21.18%(3)
2011	2014	23.05%
Teachers		
2001	2004	13.72%
2002	2005	14.84%
2003	2006	16.47%
2004	2007	19.64%
2005	2008	22.01%
2006	2009	20.07%(1)
2007	2010	19.01%(2)
2008	2011	19.01%
2009	2012	22.32%
2010	2013	19.29%(3)
2011	2014	20.68%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 11B, page 25).

(1) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 68, Article 7 (Bill Number H 5983 Aaa) (2009).
(2) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(3) Reflects restatement after adoption of the Rhode Island Retirement Security Act of 2011

The following table provides an analysis of the change in the employer ARC from the June 30, 2010 Actuarial Valuation to the June 30, 2011 Actuarial Valuation:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	36.34%	35.25%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	0.19%	-0.28%
b. Salary (gain)/loss	-0.47%	-0.18%
c. Total payroll growth (gain)/loss	0.60%	0.38%
d. Investment experience (gain)/loss	1.55%	1.47%
e. Changes in assumptions	0.00%	0.00%
f. Changes in plan provisions	-15.16%	-15.96%
g. Total	-13.29%	-14.57%
3. Employer contribution rates from current valuation (1)	23.05%	20.68%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 11A, page 24).

(1) The employer contribution rate is a percentage of payroll.

TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)[1]

Actuarial Valuation Date	Actuarial Value of Assets (in Millions $) (a)	Actuarial Accrued Liability (AAL) (in Millions $) (b)	Unfunded AAL (UAAL) (in Millions$) (b-a)	Actuarial Funded Ratio (a / b)	Annual Required Contribution (ARC) (in Millions $)	Market Value of Assets (in Millions $) (d)	Funded Ratio at Market Value (d / b)
STATE EMPLOYEES							
6/30/2012	2,333.4	4,282.9	1,949.5	54.5%	139.1	2,377.7	55.5%
6/30/2013	2,259.6	4,313.4	2,053.8	52.4%	156.3	2,376.8	55.1%
6/30/2014	2,345.0	4,344.8	1,999.8	54.0%	168.7	2,392.9	55.1%
6/30/2015	2,422.1	4,377.6	1,955.5	55.3%	177.8	2,422.1	55.3%
6/30/2016	2,461.7	4,411.3	1,949.6	55.8%	178.8	2,461.7	55.8%
6/30/2017	2,502.1	4,443.7	1,941.6	56.3%	179.5	2,502.1	56.3%
6/30/2018	2,543.3	4,475.4	1,932.1	56.8%	184.8	2,543.3	56.8%
6/30/2019	2,591.4	4,507.3	1,915.9	57.5%	189.9	2,591.4	57.5%
6/30/2020	2,645.8	4,538.6	1,892.8	58.3%	195.3	2,645.8	58.3%
6/30/2021	2,706.9	4,569.0	1,862.1	59.2%	201.3	2,706.9	59.2%
TEACHERS							
6/30/2012	3,660.5	6,388.5	2,728.0	57.3%	199.3	3,735.0	58.5%
6/30/2013	3,576.7	6,454.6	2,877.9	55.4%	219.9	3,759.2	58.2%
6/30/2014	3,731.7	6,525.1	2,793.4	57.2%	243.9	3,806.5	58.3%
6/30/2015	3,881.5	6,599.7	2,718.2	58.8%	258.6	3,881.5	58.8%
6/30/2016	3,976.0	6,677.8	2,701.8	59.5%	255.1	3,976.0	59.5%
6/30/2017	4,070.0	6,757.3	2,687.3	60.2%	254.5	4,070.0	60.2%
6/30/2018	4,167.1	6,839.2	2,672.1	60.9%	261.7	4,167.1	60.9%
6/30/2019	4,276.7	6,924.4	2,647.7	61.8%	268.9	4,276.7	61.8%
6/30/2020	4,398.1	7,011.2	2,613.1	62.7%	275.7	4,398.1	62.7%
6/30/2021	4,531.3	7,099.8	2,568.5	63.8%	283.3	4,531.3	63.8%

Source: The figures in Table 13 were calculated for ERSRI by the Actuary.
(1) The ERS is projected to be 100% funded as of June 30, 2035.

Actuarial Assumptions

General

The Actuarial Valuations use actuarial assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although the majority of the assumptions are the same across all of ERSRI, the Retirement Board separately determines certain assumptions for state employees and teachers unless a specific assumption is required by the RIGL. The actuarial cost method and the amortization period are set by the RIGL. The remaining assumptions are determined by the Retirement Board with the advice of the Actuary. While experience studies are performed regularly, no assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Plans, or that the assumptions will not be changed from time to time. Actual results can and almost certainly will differ as the actual experience deviates from the assumptions. Even seemingly minor deviations from the assumptions used to determine the value of a Plan's assets and liabilities can materially change the liabilities and contribution rates. Assumptions used can significantly impact the Actuarial Accrued Liability and the Actuarial Value of Assets reported. Certain of the assumptions used by ERSRI are summarized in Table R-14 below. For additional information on these assumptions, please refer to the Actuarial Valuations of the Plans which are public documents and are available at ERSRI's website.

TABLE R-14
CERTAIN ACTUARIAL ASSUMPTIONS AND METHODS USED BY ERSRI

Item	State Employees	Teachers
Valuation date	June 30, 2011	June 30, 2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	24 years	24 years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%(1)	7.50%(1)
Projected salary increase*	4.00% to 7.00%	4.00% to 12.75%
*Includes inflation at:	2.75%	2.75%
Cost of living adjustments (COLAs)(2):	2.00%	2.00%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Notes to Required Supplementary Information (as required by GASB 25), Section C - Table 5, page 17).

(1) As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.

(2) COLAs are currently suspended for all state employees, teachers, Behavioral Healthcare, Developmental Disabilities and Hospitals' nurses, correctional officers, judges and state police until the aggregate funding level of their plans exceeds 80%. It is assumed that the COLAs will be suspended for 16 years due to the current funding level of the plans; however, an interim COLA may be granted under certain circumstances in five-year intervals while the COLA is suspended.

Assumed Investment Rate of Return

The Actuarial Valuations of the Plans assume an investment rate of return on the assets in the Plans. For the fiscal year ending June 30, 2011, the Actuary used an assumed investment rate of return of 7.50% in connection with the valuation of the Plans' assets. (As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.) The assumed investment rate of return is the same number used to discount the Plans' future liabilities (benefits owed) to a present value. Due to the volatility of the United States' and international financial markets, the actual rate of return earned by the Plans on their assets may be higher or lower than the assumed rate. Changes in the Plans' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the five-year asset smoothing method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "Actuarial Methods - Actuarial Value of Assets" above.

Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost

The ERSRI assumptions were last changed as the result of an experience study conducted by the Actuary for the six-year period ending June 30, 2010 and approved by the Retirement Board on April 13, 2011 (the "Experience Study"). The purpose of the Experience Study, as is done periodically, was to determine the adequacy of the actuarial assumptions used in determining liabilities and contribution rates for the Plans. These actuarial assumptions include retirement rates, mortality rates, turnover rates, disability rates, investment rate of return, salary increase rates, and inflation rate.

Based upon the results of the most recent Experience Study, the Retirement Board approved revisions to the actuarial assumptions used in determining liabilities and contribution rates for the Plans, including lowering the assumed inflation rate from 3.00% to 2.75%, decreasing the assumed net real investment return rate from 5.25% to 4.75% and increasing the life expectancy of retirees. The reduction in the assumed inflation rate and assumed net real investment return rate changes the assumed investment rate of return from 8.25% to 7.50%.

In light of the Retirement Board's decision to decrease the Plans' assumed investment rate of return to 7.50%, it is important to understand the long-term implications of this lower rate of return. The investment rate of return assumption is one of the principal assumptions in the Actuarial Valuation and is among the various assumptions used to determine the State's ARC. Any change to the assumed investment rate of return can produce significant changes to the Normal Cost and UAAL for the Plans. The significance of changing the assumed investment rate of return is demonstrated in the following two bullets dealing with UAAL and Normal Cost, respectively. While the data in these bullets are derived from the June 30, 2009 valuation, these bullets are illustrative of the impact of different assumed investment rate of returns.

- The UAAL based on calculations using data derived from the June 30, 2009 Actuarial Valuation and using assumed investment rates of return of 8.25% (the current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be $4.7 billion, $9.0 billion, and $11.4 billion, respectively.

- The Normal Cost based on calculations using data derived from the June 30, 2009 Actuarial Valuation and assumed investment rates of return of 8.25% (the current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be (i) 10.0% (for teachers) and 9.3% (for state employees), (ii) 14.8% (for teachers) and 14.4% (for state employees), and (iii) 25.6% (for teachers) and 22.2% (for state employees), respectively.

As demonstrated by the foregoing bullets, the UAAL and Normal Cost increase as the assumed investment rate of return is lowered. Reducing the assumed investment rate of return to a lower, but more realistic, level will increase the State's ARC, but result in a greater likelihood that the Plans' UAAL will be sufficiently reduced over the course of the fixed amortization period. It is critical to the fiscal health of the Plans to have a realistic assumed investment rate of return and to choose such rate with some precision. If the assumed investment rate of return is too optimistic, then the State's ARC will be lower and insufficient to reduce the Plans' UAAL by the end of the amortization period.

History of Investment Return Rates

A history of the market investment return rates and the actuarial investment return rates, as well as average return rates for the most recent five-year and ten-year periods, for assets of each of the Plans are set forth in Table R-15.

TABLE R-15
HISTORY OF INVESTMENT RETURN RATES

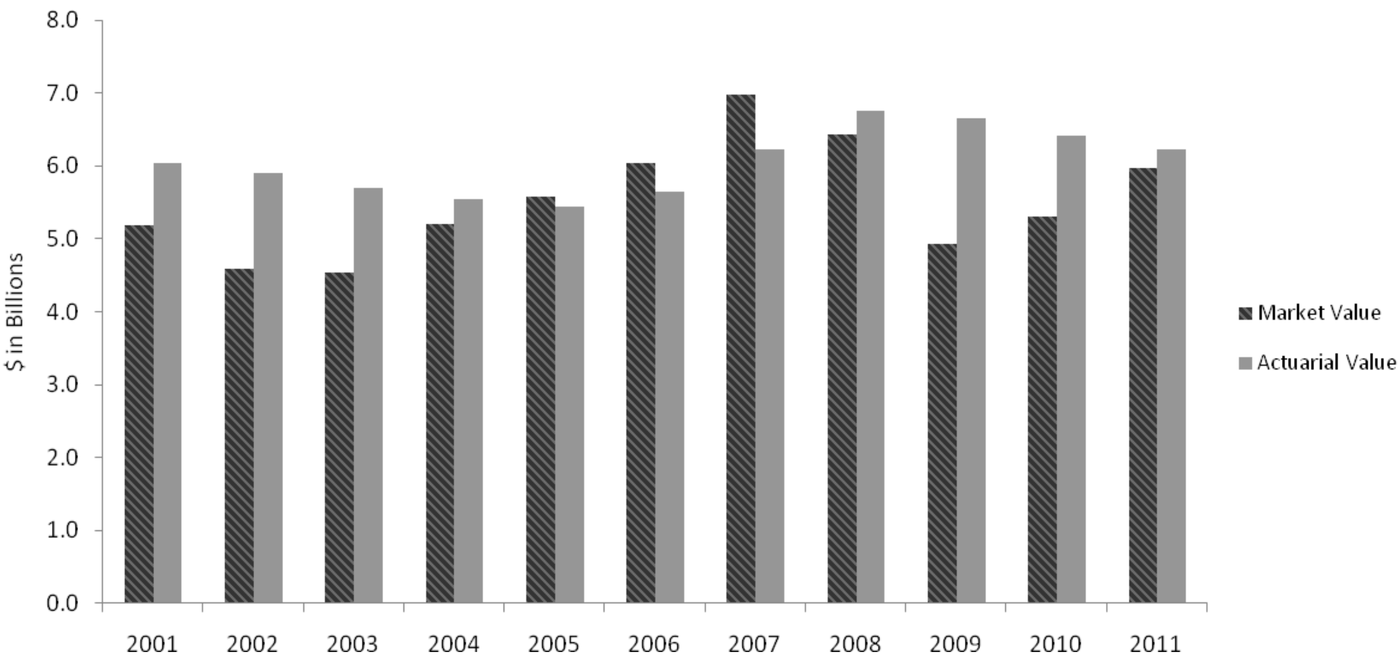
Year Ending June 30 of:	ERS	
	Market Return	Actuarial Return [1]
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
2011	19.5%	2.1%
Average Returns	**Market**	**Actuarial**
Last 5 Years	3.9%	5.7%
Last 10 Years	5.3%	3.8%
Since 1995	7.3%	7.3%

Source: ERSRI Actuarial Valuation Report as of June 30, 2011 (Section C - Table 10).
(1) The investment return rates in this column were calculated using the State's five-year asset smoothing method.

Most public pension funds do not immediately recognize large market gains or losses when valuing their assets. Instead, they recognize gains and losses over a period of years. For the State's plans, the impact of the smoothing methodology is shown in the column entitled "Actuarial Return" in Table R-15 above. One can see that using the five-year asset smoothing method results in less drastic changes in the returns which in turn cause the State's ARC to be less volatile. The State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. See "Actuarial Methods - Actuarial Value of Assets" and Table R-14. Because the valuation of assets is part of the calculation of the State's ARC, asset smoothing protects the State from sudden demands for large cash infusions in the event of losses in the financial markets. While asset smoothing allows for more consistent and predictable budgeting, it can also distort the gravity of the Plans' UAAL.

The following chart shows the fluctuation between ERSRI's Actuarial Value of Assets using asset smoothing and market value of the assets from 2001 through 2011.

CHART R-2
MARKET VALUE OF ASSETS V.S. ACTUARIAL VALUE OF ASSETS



Source: Data From Actuarial Valuations as of June 30 2001 through 2011.

Chart R-2 demonstrates how asset smoothing provides a more consistent value of assets, which in turn provides for a smoother and more predictable ARC for the State. However, there can be a wide spread between the market value of assets and the actuarial value of assets at any specific point in time. For example, as of June 30, 2011, the Actuarial Value of Assets was approximately $6.22 billion, but the market value of the assets was approximately $5.96 billion (a difference of $.26 billion). If the market value of assets is consistently less than the Actuarial Value of Assets, the distortion of the UAAL caused by asset smoothing can become problematic and cause the UAAL to grow. It is important to note that eventually the two values will converge with either the market value increasing to the actuarial value or the actuarial value decreasing to the market value if the market value does not recover.

As can be seen in Table R-15 and Chart R-2, volatile market conditions resulted in significant adverse investment returns on the Plans' assets in fiscal years 2008 and 2009. While fiscal year 2011 produced gains in the market value of assets, the market remains unstable. No assurances can be given that adverse market conditions will not return in future fiscal years, leading to a continued increase in the UAAL. In the event that such adverse market conditions return in future fiscal years, lower than expected investment performance could result in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL and the State's ARC.

Other Recent Pension-Related Events

Pre-RIRSA Pension Reform

In the last several years, the State has modified the pension benefit structure and reduced benefits in order to increase the stability and security of the Plans. In addition to the RIRSA pension reform described above, the reforms enacted in 2005, 2009 and 2010 as described below are reflected in the June 30, 2011 Actuarial Valuation.

The 2005 reform legislation provided for major changes in the retirement age, accrual of benefits, and COLAs for non-vested (less than ten years of service) state employees and teachers effective July 1, 2005.

The 2009 pension reform legislation made additional changes for all active state employees and teachers not eligible to retire on September 30, 2009 including (i) extending the retirement age to 62 (including proportional adjustments), (ii) extending the lower benefit accrual method implemented in the 2005 reform to all active employees, (iii) utilizing final average compensation for the five highest consecutive years versus three under prior law for pension calculation purposes, (iv) reducing COLAs, and (v) introducing a new tier of disability benefits.

The 2010 pension reform legislation became effective June 12, 2010 and modified the COLA for all active employees not yet eligible to retire. Such modifications provided that (i) the COLA begins at a member's third anniversary of retirement or age 65, whichever is later, and (ii) the COLA applies to the first $35,000 of retirement income indexed annually.

Although the RIRSA and other pension reforms summarized above have contributed to a reduction in the ARC and UAAL, these pension reforms are already fully reflected in the June 30, 2011 valuation and therefore are not expected to materially reduce either the ARC or the UAAL going forward.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time. The parties are scheduled to report back to the Court on December 3, 2012.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions is anticipated in late 2012.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform were successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of the RIRSA legislation, the unfunded liability of \$6.8 billion for state employees and teachers in the June 30, 2010 valuation for ERSRI has been reduced to \$4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from \$622 million as reported in the 2010 actual valuation report to \$380 million as reported in the June 30, 2011 valuation.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's Annual required Contribution ("ARC") based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

SEC Investigation

The Securities and Exchange Commission (the "SEC") has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

New GASB Pension Accounting and Financial Reporting Standards

On June 25, 2012, GASB adopted two new standards to improve the accounting and financial reporting of public employee pensions by state and local governments that replace GASB Statements 25, 27, and 50, which are the accounting and financial reporting standards for pensions on the basis of which much of the information included in this section of the Information Statement is derived.

The State's reporting on its pension system would be affected by some of the changes addressed in the two new standards (GASB Statements 67 and 68) which include, among other changes, (i) the separation of accounting and financial reporting requirements from funding approaches, (ii) a requirement to report "net pension liability" (defined as total pension liability minus a pension plan's net assets) on the State's balance sheet, (iii) the modification of a pension plan's discount rate into a blended rate reflecting both the assumed investment rate of return (for projected benefits to be paid from current and expected future plan net assets) and a rate of return based on a high-quality municipal bond index (for projected benefit payments that are expected to be made after plan net assets are projected to be fully depleted), (iv) the immediate recognition of differences between expected and actual changes in economic and demographic factors, and (v) the deferred recognition over a five-year, closed period of differences between actual and projected earnings on plan investments. The provisions of GASB Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions of GASB Statement 68 are effective for fiscal years beginning after June 15, 2014.

GLOSSARY

Actuarial Accrued Liability:	That portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs.
Actuarial Valuation:	The annual actuarial determination delivered by the Actuary comparing the Plans' assets and liabilities.
Actuarial Value of Assets:	The value of cash, investments, and other property belonging to the Plans, as used by the Actuary for purposes of the Actuarial Valuation. The Actuarial Value of Assets (in contrast to the current market value of assets) attempts to smooth annual investment return performance over multiple years to reduce annual return volatility.
Actuary:	Gabriel, Roeder, Smith & Company
Alternative 1:	The Phase-In Method under which the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual and then added together. The Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced.
Alternative 2:	The Ultimate Normal Cost Method under which the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. In short, the method assumes, for purposes of determining the Normal Cost of the Plan, the more limited benefits resulting from the pension reforms are applicable to all current employees. Under this method, any additional benefits above the levels provided to current new employees are recognized in the UAAL and amortized over the remaining amortization period.
ARC:	Actuarial Required Contribution. The aggregate in a particular year of (i) the Normal Cost and (ii) payments made to amortize the UAAL.
Asset Allocation Policy:	The long-term asset allocation policy of ERSRI's investments as established by the Commission.
COLA:	Cost of living adjustment
Commission:	The State Investment Commission
EAN:	The entry age normal actuarial cost method, which is designed to fund a Plan member's total benefits over the course the member's career. This method is designed to produce stable ARCs that increase at the same rate as the State's payroll (i.e., a level percentage of payroll).
ERS:	The Employees' Retirement System, the largest of the three Plans covering eligible state employees as well as teachers and certain other employees employed by local school districts.
ERSRI:	Employees' Retirement System of Rhode Island, the common investment and administrative agent of the Plans, administered by the Retirement Board.
Experience Study:	The most recent actuarial experience study conducted by the Actuary for the six-year period ending June 30, 2010.

FASB Rate:	The assumed investment rate of return as dictated by the Financial Accounting Standards Board, which sets the accounting rules for private pension plans and requires such plans to use an assumed investment rate of return consistent with the yields on high quality corporate bonds rated AA or better.
Funded Ratio:	The ratio of (A) the Actuarial Value of Assets (or market value of assets) to (B) Actuarial Accrued Liabilities. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.
Funded Status:	A value determined by subtracting (A) the Actuarial Accrued Liabilities from (B) Actuarial Value of Assets. Such valuation can be on an actuarial or a market value basis.
GASB:	Governmental Accounting Standards Board
GASB 25:	Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
JRBT:	The Judicial Retirement Benefits Trust
LEAs:	Local education agencies, such as municipalities, who contribute as employers to the ERS with respect to teachers.
Normal Cost:	The present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment.
Plans:	The ERS, JRBT and SPRBT, collectively
Report:	The State Auditor General's report for the fiscal year ended June 30, 2010 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
Retirement Board:	The State of Rhode Island Retirement Board
RIGL:	The State of Rhode Island General Laws
SEC:	The United States Securities and Exchange Commission
SPRBT:	The State Police Retirement Benefits Trust
UAAL:	Unfunded Actuarial Accrued Liability, which is the difference between (A) the Actuarial Value of Assets (or market value of assets) and (B) the Actuarial Accrued Liability. Such valuation can be on an actuarial or a market value basis.

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 by the State under this program are made by annual appropriation of actual benefit costs incurred rather than a percentage of payroll.

RETIREE HEATH CARE BENEFITS

During the 2008 session of the General Assembly, in order to begin funding the unfunded liability for retiree health care, legislation was enacted which required the State to fund retiree healthcare benefits on an actuarial basis and which also authorized creation of a trust for retiree healthcare benefit assets. During the 2009 session of the General Assembly, these requirements were delayed until FY2011 due to budget constraints.

The Trust was established in December 2010, and all contributions to the Trust for fiscal year 2011 and FY 2012 were made and for fiscal year 2013 are being made on an actuarially determined basis in accordance with the law.

In order to address the unfunded liability associated with retiree health care benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health care coverage. The General Assembly adopted his proposal with minor modifications, including changing the effective date to October 1, 2008. Employees retiring on or after October 1, 2008 are eligible for retiree health care coverage provided by the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 with at least 28 years of service at any age, or at least 10 years of service and at least age 60, was eligible for retirement and was therefore eligible for retiree health care coverage. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The reform enacted in 2008 modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service and based on the cost of an active employee health benefit plan. For those employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* and Rhode Island law the State has obtained an updated actuarial valuation of the unfunded liability relating to retiree health care benefits. The unfunded liability as of June 30, 2011, the date of the latest valuation, was determined to be approximately $866.3 million, including $774.7 million for State employees, $80.3 million for State Police, $0 for Legislators, $1.8 million for Judges, and $9.5 million for the State's share for teachers. This was calculated using an assumed investment rate of return of 5.0% due to the fact that for fiscal year ending June 30, 2011, a Trust was established and the plan was funded on an actuarially determined basis. The annual required contribution as a percentage of payroll for fiscal year 2013 is 6.86%, 33.18%, 0% and 7.19% (no rate for teachers), respectively.

There have been changes in actuarial assumptions since the prior valuation. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRB experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

The new mortality assumptions used by ERSRI and SPRBT include a provision for future mortality improvement by using generational mortality. Generational mortality assumes continued future improvements in mortality rates. The intent is to keep ahead of future mortality improvements in order to avoid future losses as retirees live longer. The generational mortality approach is generally more conservative and has a material impact on this valuation.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost (Cadillac) health plans beginning in 2018. The excise tax is 40% of costs above a threshold. Under the valuation assumptions, it is anticipated that the Active and Early Retiree Plans will be subject to the excise tax as early as 2018 and the liability has been increased to reflect the anticipated tax.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. These future revisions in actuarial assumptions could have a material effect on the unfunded actuarial accrued liability or actuarially required contribution in the future. In the event of material changes in the unfunded actuarial accrued liability with respect to retiree healthcare, there is no assurance that the State will be able to fund its actuarially required contributions in the future. In the event that the State is not able to fund such contributions, the State may be required to raise additional revenue, to reduce State services, to modify benefits, to implement a combination of the foregoing or take other necessary measures.

The total contributions made by the State and the other participating employees for retiree health care benefits were $47.7 million in FY 2011 and $47.0 million in FY 2012.

For further information about retiree health care benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2011 which are attached hereto in Exhibit A.

LITIGATION

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, in the event an adverse judgment to the State is rendered in the pension litigation described below challenging pension reform, such judgment could materially affect the State's financial position, depending upon the extent to which such judgment impacts the reductions in unfunded liability and employer contributions achieved by the pension reform.

Furthermore, the following pending litigations, the potential exposure for which is greater than $5,000,000, should be noted.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time. The parties are scheduled to report back to the Court on December 3, 2012.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions is anticipated in late 2012.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform were successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers in the June 30, 2011 valuation for ERSRI has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's Annual Required Contribution ("ARC") based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Other Litigation

In November 2007, the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island were ordered by an arbitrator to pay a contractor, DePasquale Building and Realty Company, $3.3 million in damages relating to the construction of a new facility. This decision was appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island. On June 29, 2009, the Rhode Island Superior Court rendered its decision on the matter by vacating the arbitration award except for progress payments in the amount of $327,000 owed to Depasquale and $155,000 owed to a subcontractor, Delta Mechanical Contractors. Delta was subsequently paid. The court decision has been appealed by DePasquale to the Rhode Island Supreme Court and is awaiting a hearing. CCRI has made the payments of $327,000 and $155,000 as required by the Superior Court.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and construction of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Ratio recently reduced its claim to $4.6M. On March 30, 2012, the State filed a Motion for Partial Summary Judgment, seeking to dismiss certain of Raito's claims. On August 14, 2012, the Court dismissed three of Raito's claims, valued at approximately $1.8 million. On August 28, 2012, Raito filed a Motion for Reconsideration of the Court's decision to dismiss those three claims. The State opposed that motion, and a hearing is scheduled for September 28, 2012. A 2-day mediation of all claims remaining is scheduled for October 30-31, 2012. No trial date has been set, but if the case is not settled at the mediation a trial will most likely take place during the winter of 2012-2013.

In late 2009 Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several state employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $28,000,000. The State has denied the claim in its totality and will contest all damages. In March 2012, the Superior Court dismissed eight (8) out ten (10) counts. The State denies liability and will fully contest the two (2) remaining counts for breach of contract and equitable estoppel.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. Cranston and Chariho have both filed Administrative Procedures Act appeals in Superior Court which are currently pending. Both Cranston and Chariho have also filed Petitions for Writs of Certiorari in connection with their Petitions for Writs of Mandamus which were previously denied. Though a tentative settlement agreement had been reached and was subject to final approval from the Department of Administration (the terms of the agreement being that Cranston would receive $258,866.00 in FY 2012). However, because a supplemental appropriation was not approved for payment of the settlement amount, the Superior Court and Supreme Court actions shall proceed. It is to be noted that along with Cranston's claim, the aggregate sums demanded by the school districts is approximately $22 million dollars.

The State was sued by Simcha Berman, who fell while walking along the Newport Cliff Walk and became a quadriplegic. The State won a jury trial and the plaintiff was not successful in obtaining a new trial on the claims. An appeal is currently pending. Plaintiff's special damages exceed $8,000,000. The State intends to contest this case.

The State was sued by Brett Roy, who became a quadriplegic after diving into a pond at Veterans Memorial Park in Woonsocket. After the trial, a verdict was rendered for the State and a motion for a new trial is currently pending. During the trial, the Plaintiff asserted damages in excess of $70,000,000, including over $2,000,000 in past medical expenses and approximately $9,000,000 in future expenses. The State intends to continue to contest this case.

The Rhode Island General Assembly enacted legislation that calls for analysis of competitive casino gaming operations and a statewide referendum (November 2012) to allow casino style gaming at Twin River. Subsequently, the constitutionality of that legislation is being challenged by the Narragansett Indian Tribe. The Superior Court refused to enjoin the State and the Narragansett Indian Tribe filed a notice of appeal to the Supreme Court where the matter presently stands. The State does not believe that the Tribe's law suit seeking a declaratory judgment will be successful.

Certain litigation involving quasi-agencies or authorities may be identified in the State Agencies and Authorities section.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2011, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
dennis.hoyle@oag.ri.gov

- *INTEGRITY*
- *RELIABILITY*
- *INDEPENDENCE*
- *ACCOUNTABILITY*

INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives
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, 2011, 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 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 68% of the assets and 2% of the revenues of the business-type activities; and
- 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 opinions, insofar as they relate 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, are based on the reports of the other auditors.

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.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position 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, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1(R), the State implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As disclosed in Note 6(J), the State has borrowed $222 million from the federal Unemployment Insurance Trust Fund to fund benefits paid from the Employment Security Fund, a major fund, to eligible unemployed individuals. The Employment Security Fund had a deficit net asset balance of $153 million at June 30, 2011.

As disclosed in Note 18, the State enacted comprehensive pension reform legislation in November 2011 affecting the majority of members of the plans included within the Employees' Retirement System.

As disclosed in Note 12, unions representing State employees and teachers have filed suit against the State challenging legislative changes made in 2009 and 2010 to pension benefit provisions. Similar legal challenges from unions representing State employees and teachers are anticipated for pension reform measures more recently enacted in November 2011.

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

The Management's Discussion and Analysis, on pages A-4 through A-20, the Budgetary Comparison Schedules on pages A-104 through A-107, and the Schedules of Funding Progress on pages A-108 through A-109 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.

Dennis E. Hoyle, CPA
Acting Auditor General

December 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2011. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities on June 30, 2011 by $926.9 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,598.7) million was reported as unrestricted net assets (deficit), $473.8 million as restricted net assets, and $2,051.8 million as invested in capital assets, net of related debt.

- **Changes in Net Assets:** In the Statement of Activities, the State's total net assets increased by $140.5 million in fiscal year 2011. Net assets of governmental activities increased by $180.4 million, primarily due to increases in tax revenue due to the gradually improving economy and reductions in general government expenditures which resulted from careful management of expenses. Net assets of the business-type activities decreased by $39.9 million due primarily to the operating loss of the Employment Security Fund. This fund continues to be adversely impacted by the higher than normal unemployment rate in the State.

Fund Financial Statements

<u>Governmental Funds</u>

- The State's governmental funds reported a combined ending fund balance of $796.0 million, a decrease of $88.3 million in comparison with the previous fiscal year, primarily as a result of expenditure of bond and note proceeds in certain special revenue and capital projects funds.

- As of June 30, 2011, the State's General Fund reported an ending fund balance of $270.9 million, an increase of $85.5 million as compared to the prior year. This change resulted from increases in general revenue in fiscal year 2011 and the implementation of a number of measures to enhance controls over expenditures.

- As of June 30, 2011, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $131.8 million, a decrease of $69.4 million as compared to the prior year.

<u>Proprietary Funds</u>

- The Rhode Island State Lottery transferred $354.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $10.2 million in comparison with the previous fiscal year. This was primarily due to an increase in revenue from video lottery games.

- The Employment Security Fund ended the fiscal year with a fund deficit of ($153.1) million, as compared with a fund deficit of ($116.2) million at the end of fiscal year 2010. This change was primarily attributable to the level of unemployment benefits paid as a result of the high unemployment rate in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net asset deficiency of ($50.9) million, a deficit increase of $3.6 million compared with the prior year. The Authority has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is longer than the depreciable life of the assets.

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
3. Notes to the financial statements

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

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 assist 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 activities:

- **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 Rhode Island Lottery, Rhode Island 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. These entities are listed in Note 1. The 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 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 and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and 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(C). The Intermodal Surface Transportation Fund is also a major fund. 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 the State's Comprehensive Annual Financial Report (CAFR).

- **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. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority (RICCA) and the Employment Security 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 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 the State's CAFR.

- **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 and other post-employment benefits trusts, 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 the State's CAFR.

Discretely Presented Component Units

Discretely presented component units 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. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are detailed in Note 1 (B).

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 and other post-employment 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 enacted budget.

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds. These funds are grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds 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 $926.9 million at the end of fiscal year 2011, compared to $801.1 million at the end of the prior fiscal year before restatement. Governmental activities reported unrestricted net assets (deficit) of ($1,439.3) million.

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), 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.

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

State of Rhode Island's Net Assets as of June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 1,608,885	$ 1,674,250	$ 116,487	$ 150,798	$ 1,725,372	$ 1,825,048
Capital assets	3,130,020	3,033,583	187,120	196,283	3,317,140	3,229,866
Total assets	4,738,905	4,707,833	303,607	347,081	5,042,512	5,054,914
Long-term liabilities outstanding	2,683,490	2,848,899	470,452	482,646	3,153,942	3,331,545
Other liabilities	916,985	900,878	44,663	36,035	961,648	936,913
Total liabilities	3,600,475	3,749,777	515,115	518,681	4,115,590	4,268,458
Net assets:						
Invested in capital assets, net of related debt	2,115,001	2,064,231	(63,156)	(61,806)	2,051,845	2,002,425
Restricted	462,751	483,931	11,036	13,161	473,787	497,092
Unrestricted	(1,439,322)	(1,590,106)	(159,388)	(122,955)	(1,598,710)	(1,713,061)
Total net assets (as restated)	$ 1,138,430	$ 958,056	$ (211,508)	$ (171,600)	$ 926,922	$ 786,456

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 17 (F) to the financial statements.

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,598.7) million on June 30, 2011 in the Statement of Net Assets. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges which are reflected in the financial statements of discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities;
- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependent on the State for care.

In the above instances, the primary government records a liability for the general obligation bonds but no related capitalized asset is recorded. A cumulative deficit in unrestricted net assets results from financing these types of projects through the years.

Changes in Net Assets

The State's net assets increased by $140.5 million during the current fiscal year. Total revenues of $7,144.5 million were more than expenses of $7,004.1 million. Approximately 37.3% of the State's total revenue came from taxes, while 40.7% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 20.6% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 43.0%, and education, 19.0%. In fiscal year 2011, governmental activity expenses exceeded program revenues by $2,924.0 million, with excess expenses being funded through general revenues. Net program revenues from business-type activities in fiscal year 2011 exceeded expenses by $296.7 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ 482,652	$ 462,226	$ 985,556	$ 947,826	$ 1,468,208	$ 1,410,052
Operating grants and contributions	2,387,540	2,361,446	358,932	418,270	2,746,472	2,779,716
Capital grants and contributions	162,032	162,090			162,032	162,090
General revenues:						
Taxes	2,665,169	2,577,519			2,665,169	2,577,519
Interest and investment earnings	5,561	4,309	79	164	5,640	4,473
Miscellaneous	102,478	91,110	(5,454)	20,224	97,024	111,334
Payments from component units		7,228				7,228
Total revenues	5,805,432	5,665,928	1,339,113	1,386,484	7,144,545	7,052,412
Program expenses:						
General government	644,194	741,329			644,194	741,329
Human services	3,013,081	2,900,673			3,013,081	2,900,673
Education	1,332,453	1,273,985			1,332,453	1,273,985
Public safety	436,940	418,485			436,940	418,485
Natural resources	80,360	73,551			80,360	73,551
Transportation	300,366	305,460			300,366	305,460
Interest	148,850	142,924			148,850	142,924
Lottery			368,870	358,128	368,870	358,128
Convention Center			32,986	50,732	32,986	50,732
Employment insurance			645,979	783,878	645,979	783,878
Total expenses	5,956,244	5,856,407	1,047,835	1,192,738	7,004,079	7,049,145
Change in net assets before transfers	(150,812)	(190,479)	291,278	193,746	140,466	3,267
Transfers	331,186	318,772	(331,186)	(318,772)		
Change in net assets	180,374	128,293	(39,908)	(125,026)	140,466	3,267
Net assets - Beginning	972,714	844,421	(171,600)	(46,574)	801,114	797,847
Cumulative effect of prior period adjustments	(14,658)				(14,658)	
Net assets - Beginning, as restated	958,056	844,421	(171,600)	(46,574)	786,456	797,847
Net assets - Ending	$ 1,138,430	$ 972,714	$ (211,508)	$ (171,600)	$ 926,922	$ 801,114

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 1 (S) and Note 17 (F) to the financial statements.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2011.

Chart 1 - Revenues and Transfers - Governmental Activities

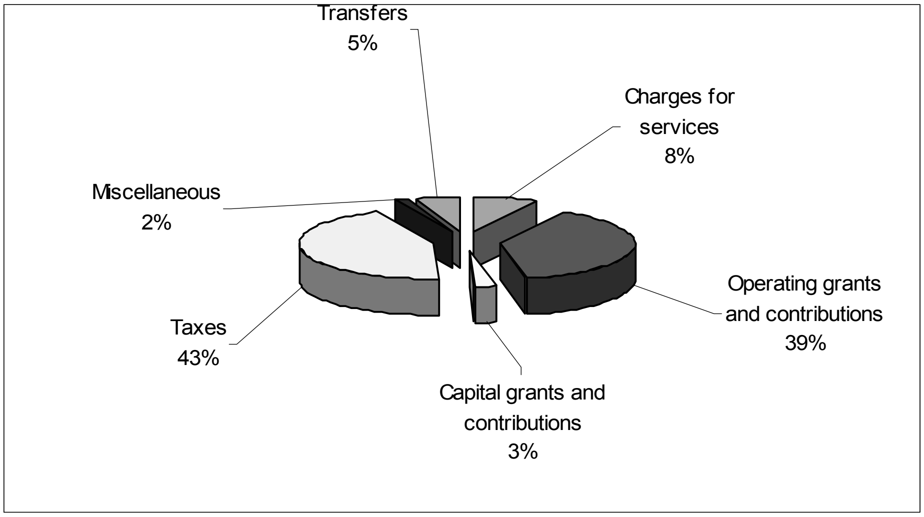
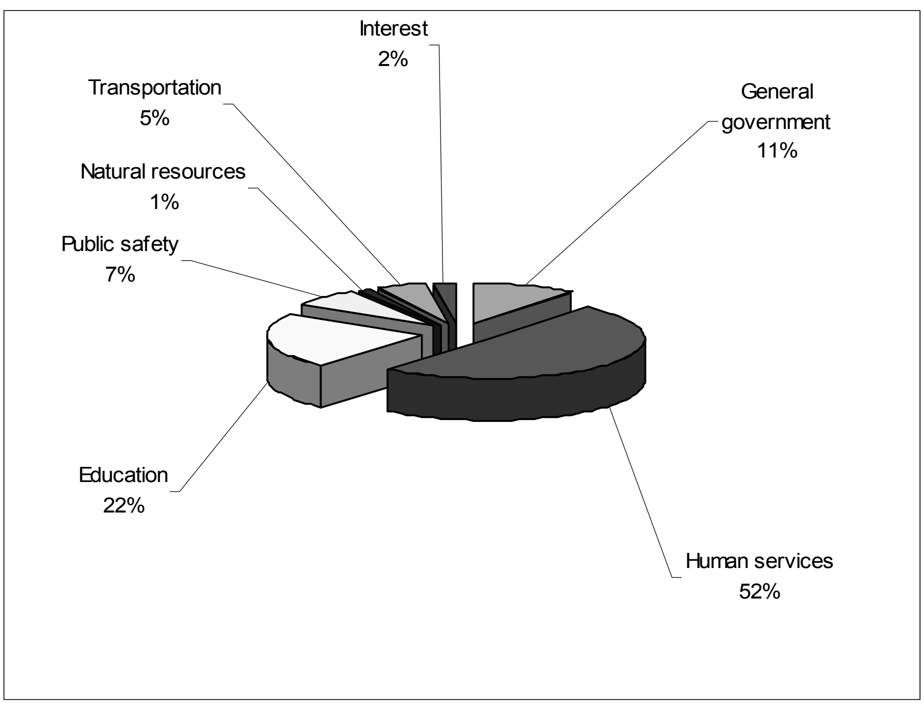


Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2011.

Chart 2 - Program Expenses - Governmental Activities



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. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $796.0 million, a decrease of $88.3 million from June 30, 2010. A breakdown of the components follows (expressed in thousands):

	2011	2010	Change	Percent
Governmental Funds				
Nonspendable	$ 53,527	$ 49,476	$ 4,051	8.19%
Restricted	726,136	843,686	(117,550)	-13.93%
Unrestricted				
Committed	7,404	7,651	(247)	-3.23%
Assigned	8,709	19,704	(10,995)	-55.80%
Unassigned (deficit)	238	(36,201)	36,439	100.66%
Total	$ 796,014	$ 884,316	$ (88,302)	-9.99%

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Account, or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent to be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned fund balance – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The decrease in restricted fund balances of $117.6 million is primarily a result of expenditure of bond and note proceeds in certain special revenue and capital projects funds.

The major governmental funds of the primary government are:

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2011	2010	Change	Percent
Nonspendable	$ 53,353	$ 49,302	$ 4,051	8.22%
Restricted	197,885	161,904	35,981	22.22%
Unrestricted				
Committed	5,956	4,285	1,671	39.00%
Assigned	8,425		8,425	0.00%
Unassigned (deficit)	5,281	(30,041)	35,322	117.58%
Total	$ 270,900	$ 185,450	$ 85,450	46.08%

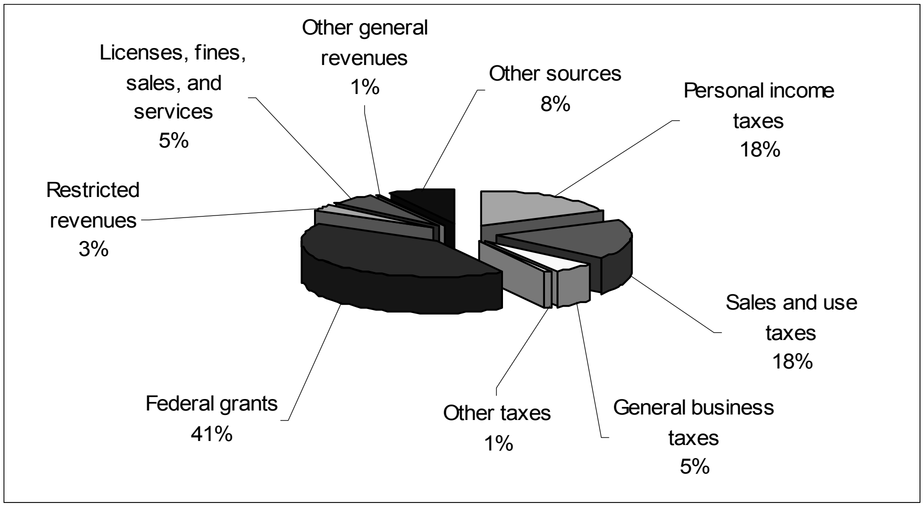
Revenues and other sources of the General Fund totaled $5,637.9 million in fiscal year 2011, an increase of $128.0 million, 2.32%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2010	
	2011	2010	Amount	Percent
Taxes:				
Personal income	$ 1,014,617	$ 879,007	$ 135,610	15.43%
Sales and use	1,007,460	1,002,233	5,227	0.52%
General business	286,564	355,664	(69,100)	-19.43%
Other	54,551	37,543	17,008	45.30%
Subtotal	2,363,192	2,274,447	88,745	3.90%
Federal grants	2,314,100	2,275,606	38,494	1.69%
Restricted revenues	174,192	149,638	24,554	16.41%
Licenses, fines, sales, and services	309,687	310,505	(818)	-0.26%
Other general revenues	34,651	27,351	7,300	26.69%
Subtotal	2,832,630	2,763,100	69,530	2.52%
Total revenues	5,195,822	5,037,547	158,275	3.14%
Other sources	442,116	472,355	(30,239)	-6.40%
Total revenue and other sources	$ 5,637,938	$ 5,509,902	$ 128,036	2.32%

Personal Income Taxes increased significantly between FY 2010 and FY 2011 due to a decline in refunds paid of approximately 10.0 percent, an increase in final payments of 19.4 percent and an improvement in withholding tax payments of 4.9 percent. The decline in refunds paid and the increase in final payments received are attributable in part to the fact that the 2009 General Assembly changed the law and began taxing capital gains income at the same rates as all other income effective January 1, 2010. The increase in withholding tax payments in FY 2011 compared to FY 2010 is due to the State's improving economy and perhaps, to a lesser extent, the change in the withholding tables issued by the Division of Taxation effective January 1, 2011 to reflect the reformed personal income tax structure enacted by the General Assembly in June 2010.

Chart 3 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2011.

Chart 3 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,552.5 million in fiscal year 2011, an increase of $160.7 million, or 2.98%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2010	
	2011	2010	Amount	Percent
General government	$ 458,222	$ 552,229	$ (94,007)	-17.02%
Human services	3,009,097	2,884,419	124,678	4.32%
Education	1,287,549	1,239,074	48,475	3.91%
Public safety	428,687	394,860	33,827	8.57%
Natural resources	71,812	67,427	4,385	6.50%
Debt Service:				
Principal	106,961	115,395	(8,434)	-7.31%
Interest	75,634	73,960	1,674	2.26%
Total expenditures	5,437,962	5,327,364	110,598	2.08%
Other uses	114,526	64,448	50,078	77.70%
Total expenditures and other uses	$ 5,552,488	$ 5,391,812	$ 160,676	2.98%

The decrease from the prior year in the General Government function is primarily attributable to a restructuring of the Motor Vehicle Excise Tax Phase-out program, under which cities and towns are reimbursed for a portion of taxes on motor vehicles that are exempt under state law.

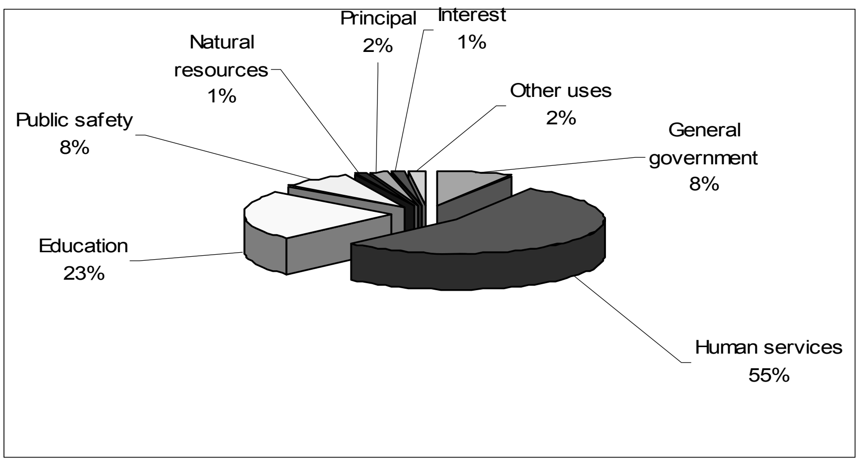
The increase in the Human Services function expenditures is attributable to an increase in federal funds for the Supplemental Nutrition Assistance Program (SNAP) of about $38 million and a net increase in all funds for Medicaid of approximately $82 million. The increase in Medicaid costs is due to a shift of former fee-for-service populations to managed care, particularly in the Rhody Health program, which yielded significant year-over-year caseload increases. In addition, average capitation rates also increased in FY 2011 compared to FY 2010 in both the Rite Care and Rhody Health programs.

The increase in the Education function expenditures is primarily in the Department of Elementary and Secondary Education and is attributable to increases in aid to charter schools ($6.5 million); school construction aid ($9.7 million); statewide transportation ($5.9 million) and additional federal funds under the Education Jobs Fund ($14.4 million) and Race to the Top ($1.6 million).

The increase in the Public Safety function is attributable to three primary areas. First, resolution of a new contract with the RI Brotherhood of Correctional Officers resulted in increased personnel costs in the Department of Corrections. This new contract included cost of living adjustments retroactively to FY 2007, which resulted in the salary base in FY 2011 increasing by 15.3 percent over the prior year or approximately $8.6 million in increased costs including associated benefits. Second, within the Department of Public Safety, payroll costs, primarily in the State Police program, increased in FY 2011 compared to FY 2010 due to several factors. A new contract with the RI Troopers Association resulted in retroactive payments of approximately $0.5 million; pay as you go pensions increased by approximately $0.6 million; annualized cost for a new Trooper class totaled about $1.5 million; overtime expenses increased by approximately $1.8 million and retiree health rates for Troopers increased from 14.62 percent in FY 2010 to 25.67 percent in FY 2011 for an additional cost of $2.2 million. Finally, the RI Emergency Management agency received additional federal funds of approximately $11.3 million, of which $8.3 million was the FEMA 90% share of costs associated with the 2010 Floods.

Chart 4 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2011.

Chart 4 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that 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. It also 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 components of fund balance of the IST fund are as follows (expressed in thousands):

	2011	2010	Change	Percent
Restricted	$ 135,310	$ 203,858	$ (68,548)	-33.63%
Unrestricted				
Committed	1,448	3,366	(1,918)	-56.98%
Assigned	85	85		0.00%
Unassigned (deficit)	(5,043)	(6,160)	1,117	18.13%
Total	$ 131,800	$ 201,149	$ (69,349)	-34.48%

General Fund Budgetary Highlights – General Revenue Sources

Prior to FY2009, according to the State's Constitution, general revenue appropriations in the general fund could not exceed 98% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue was transferred to the State Budget Reserve Account. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the R.I. Capital Plan Fund to be used for capital projects. In FY2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For FY2011 and subsequent years the spending cap decreases by .2% and the reserve limitation increases by .4% each year until FY2013, when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. 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 revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of $70.3 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $32.1 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Variance
Revenues and sources:				
Taxes:				
Personal income	$ 937,900	$ 1,003,600	$ 1,021,339	$ 17,739
General business	361,250	310,800	294,032	(16,768)
Sales and use	982,200	1,011,800	1,007,460	(4,340)
Other taxes	35,800	57,400	54,550	(2,850)
Departmental revenue	345,227	334,116	332,715	(1,401)
Other sources:				
Miscellaneous	5,331	13,130	11,116	(2,014)
Lottery transfer	346,939	353,037	354,861	1,824
Unclaimed property	6,000	7,100	7,640	540
Total revenues and other sources	3,020,647	3,090,983	3,083,713	(7,270)
Expenditures and other uses:				
General government	434,602	443,251	434,618	8,633
Human services	1,074,919	1,107,527	1,096,983	10,544
Education	1,031,328	1,020,451	1,022,170	(1,719)
Public safety	363,512	365,365	365,120	245
Natural resources	37,758	37,610	37,262	348
Total expenditures and other uses	2,942,119	2,974,204	2,956,153	18,051
Excess of revenues and other sources over expenditures and other uses	$ 78,528	$ 116,779	$ 127,560	$ 10,781

The positive variance from the FY 2011 Original and Final Budgets to the FY 2011 Actual for Personal Income Taxes is due to a significant downward trend in refunds paid and a sharp increase in withholding tax payments received. The downward trend in refunds paid was based on actual collections in FY 2010 which were nearly $18.0 million less than the FY 2010 Final Budget and the actual refunds paid throughout FY 2011. The increase in withholding tax payments received was due to the improved State and regional economies between June 2010 and June 2011. The increase in Sales and Use Taxes between the FY 2011 Original and Final Budget is primarily due to an increase in actual sales and use tax collections (versus other excise tax collections). The FY 2011 Final Budget was revised based on actual collections.

The positive variance in the General Government function of approximately $8.6 million for expenditures was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower electricity and natural gas rates and/or usage, as well as lower costs for sewer and water charges. Savings from vacant positions also contributed to the positive variance. In the Legislature's budget, the positive variance was primarily in the grants category, a major portion of which being due to a delay in work on redistricting, which had an appropriation of $1.5 million, against which no expenditures were incurred.

The positive variance in the Human Services function of approximately $6.2 million for expenditures was due to a positive variance in the Department of Human Services (DHS) of $10.1 million, offset by negative variances in the Department of Children, Youth and Families (DCYF) of $3.2 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $1.6 million. The DHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2011. The DCYF negative variance was primarily attributable to delays in the implementation of the new System of Care Transformation initiative that was intended to achieve savings from a shift to more community based services. The BHDDH negative variance was primarily in the Developmental Disabilities program and is mainly attributable to additional overtime resulting from higher than expected staff vacancy rates.

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, 2011, amounts to $3,317.1 million, net of accumulated depreciation of $2,037.7 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 approximately 2.7% of net book value. This increase is primarily caused by the construction and rehabilitation of highways and other infrastructure as well as a number of significant building projects, as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $236.4 million for the year. Of this amount, $142.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $146.8 million.

State of Rhode Island's Capital Assets as of June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Capital assets not being depreciated						
Land	$ 351,873	$ 349,811	$ 45,558	$ 45,558	$ 397,431	$ 395,369
Works of Art	1,283	422			1,283	422
Intangibles	155,206	151,076			155,206	151,076
Construction in progress	427,459	463,964	154	649	427,613	464,613
Total capital assets not being depreciated	935,821	965,273	45,712	46,207	981,533	1,011,480
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	644,386	587,448	234,130	234,086	878,516	821,534
Building improvements	260,066	210,608			260,066	210,608
Equipment	242,348	235,227	24,956	22,943	267,304	258,170
Intangibles	14,049	11,986			14,049	11,986
Infrastructure	2,949,715	2,811,359			2,949,715	2,811,359
	4,114,264	3,860,328	259,086	257,029	4,373,350	4,117,357
Less: Accumulated depreciation	1,920,065	1,792,020	117,678	106,953	2,037,743	1,898,973
Total capital assets being depreciated	2,194,199	2,068,308	141,408	150,076	2,335,607	2,218,384
Total capital assets (net)	$ 3,130,020	$ 3,033,581	$ 187,120	$ 196,283	$ 3,317,140	$ 3,229,864

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 17 (F) to the financial statements.

In fiscal year 2011, the State completed a number of significant capital projects, including new office facilities for the Division of Motor Vehicles, a new facility for the School for the Deaf, and the new headquarters for use by the R.I. State Police. Also, the State is investing in new technology to significantly enhance the operations of the Division of Motor Vehicles. In addition, a number of significant highway and bridge improvement projects are underway, including construction of a new Sakonnet River Bridge in Tiverton and a new Blackstone River Bridge on Route I-95 in Pawtucket. Finally, the State has made a significant investment in commuter rail service by expanding service from Providence to Warwick's T.F. Green Airport and plans to further expand service to Wickford Station in Washington County.

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

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 $2,411.8 million of which $1,049.4 million is general obligation debt, $567.2 million is special obligation debt and $795.2 million is debt of the blended component units. Additionally, accreted interest of $14.3 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt decreased by $127.2 million during the current fiscal year. This decrease consists of a $68.6 million decrease in general obligation debt, a decrease of $46.1 million in special obligation debt, and a decrease of $12.5 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $358.0 million and are discussed in Note 6.

The State's assigned general obligation bond ratings at June 30, 2011 were as follows: AA by Standard & Poor's Investor Services (S&P), Aa2 (with a negative outlook) by Moody's Investor Service, Inc. and AA by Fitch Investor Service. 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 $262.0 million; other obligations that are authorized but unissued totaled $382.9 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2012 Budget

The first quarter report for FY 2012 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2012, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2011 Caseload and Revenue Estimating Conferences. The FY 2012 balance, based upon these assumptions, is estimated to reflect a $2.1 million deficit.

The Budget Office continues to review department and agency FY 2012 expenditure plans in conjunction with the FY 2013 budget process. Any changes recommended by the Governor to the FY 2012 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly no later than January 19, 2012.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $19.4 million more than enacted for FY 2012. Taxes are expected to exceed enacted estimates by $10.0 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $9.4 million. The November Revenue Estimating Conference estimates that revenues will be $3,195.4 million as compared with the enacted estimate of $3,176.0 million for FY 2012.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

Revenues overall are down at many gaming venues throughout New England due to current economic conditions. Competition among gaming venues has increased, resulting in more promotional allowances, player reward incentives being offered and increased marketing efforts.

The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts in November 2011 enacted legislation to allow three casinos and one slot parlor in that state. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

Recently enacted legislation has authorized a statewide ballot referendum in November 2012 that allows the voters of Rhode Island to approve the expansion of gaming at the Twin River video lottery facility located in Lincoln, RI. The expansion would allow Twin River to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. This referendum is also subject to local (Town of Lincoln) voter approval.

Pension Benefits

During Fiscal 2012, the General Treasurer and Governor undertook a comprehensive pension reform initiative with the goal of improving the funded status of the plans within the System, reducing required employer contributions, and ensuring the long-term viability of the Employees' Retirement System. The General Assembly convened a special legislative session to solely address pension reform measures which were enacted on November 18, 2011.

The pension reform measures make significant changes to member benefit provisions including retirement eligibility age and service credit accrual factors. Additionally, cost of living allowances are generally suspended until the funded status of the plans improves and is now linked to performance of the System's investments. A defined contribution plan will be implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is reamortized over a 25 year period.

Other Post Employment Benefits

Pursuant to legislation enacted by the General Assembly, the State has established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2009 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be approximately $822.4 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was determined to be $53.0 million. For fiscal year 2011, the State funded the retiree health care program in accordance with law by contributing the actuarially determined contribution.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

Federal Debt Limit and Potential Federal Spending Cuts

On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade. It is not known what impact, if any, these reductions may have on the State. It is possible that certain federal aid and other federal payments to the State, as well as to other states and municipalities, could be significantly reduced or otherwise affected. The budget and financial health of the State could be materially adversely affected by any material disruption or change in the flow of anticipated federal assistance to the State.

Transportation Funding Initiatives

The Blue Ribbon Panel for Transportation Funding (Panel), formed by the Governor, concluded in a report issued in December 2008, that the State faced a potential annual funding gap of $285 million. The Panel also provided a variety of recommendations ranging from the implementation of tolls on cars and trucks entering the State, tolls on all State bridges, raising vehicle registration fees, raising the gasoline tax, and other tax and fee alternatives. In fiscal 2011, the State enacted legislation to establish the Rhode Island Highway Maintenance Trust Fund (Trust). The purpose of the Trust is to provide stable financing for the State's Transportation Improvement Program. The Trust will be financed through surcharges on vehicle registrations that will begin in fiscal 2014 and be phased-in over a three year period.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Borrowings through September 2011 totaled approximately $216 million. It is expected that additional borrowings will be needed in the balance of fiscal year 2012. Effective January 1, 2011, the Job Development assessment rate was increased from .21% to .51% to accumulate funds to begin to repay the balance borrowed.

Local Government Financial Matters

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, unfunded pension and OPEB obligations, and rating agency downgrades. Most notably, the City of Central Falls was under the control of a State appointed receiver at June 30, 2011 and subsequently filed for federal bankruptcy protection in August 2011.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to effect three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer was appointed for the City of East Providence in November 2011. Subsequently, a budget commission was appointed in December 2011.

Many of the locally-administered pension plans are poorly funded with a collective unfunded liability of $2.1 billion and funded ratio of approximately 40%. Additionally, locally-administered OPEB plans have a collective unfunded liability of $3.5 billion and funded ratio of just 1%. Recently enacted pension reform measures for state–administered pension plans did not address the locally-administered pension plans; however, efforts to improve the funded status of those plans while recognizing the inherent resource limitations of the sponsoring municipalities will continue.

The State is continually monitoring the financial status of all municipalities to forestall the need for more intensive intervention.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Peter.Keenan@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

BASIC FINANCIAL STATEMENTS

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2011
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business - Type Activities**	**Totals**	**Component Units**
Assets				
Current assets:				
Cash and cash equivalents	$ 557,299	$ 24,561	$ 581,860	$ 291,325
Funds on deposit with fiscal agent	149,178	1,517	150,695	
Investments				25,193
Receivables (net)	547,566	72,107	619,673	160,364
Restricted assets:				
Cash and cash equivalents		11,035	11,035	528,824
Investments	71,642		71,642	272,528
Receivables (net)				14
Other assets				91,390
Due from primary government				8,147
Due from component units	2,271		2,271	227
Internal balances	(51)	51		
Due from other governments and agencies	144,978	1,828	146,806	2,144
Inventories	1,719	992	2,711	10,712
Other assets	60,277	488	60,765	40,329
Total current assets	1,534,879	112,579	1,647,458	1,431,197
Noncurrent assets:				
Investments				156,019
Receivables (net)	15,192		15,192	962,254
Due from other governments and agencies	5,120		5,120	
Restricted assets:				
Cash and cash equivalents				115,561
Investments				227,994
Other assets				2,524,740
Due from component units	35,421		35,421	2,837
Capital assets - nondepreciable	935,821	45,712	981,533	445,149
Capital assets - depreciable (net)	2,194,199	141,408	2,335,607	1,874,570
Other assets	18,273	3,908	22,181	176,306
Total noncurrent assets	3,204,026	191,028	3,395,054	6,485,430
Total assets	4,738,905	303,607	5,042,512	7,916,627
Liabilities				
Current Liabilities:				
Cash overdraft				242
Accounts payable	511,043	15,708	526,751	102,107
Due to primary government				2,271
Due to component units	8,147		8,147	227
Due to other governments and agencies		7,638	7,638	36,030
Accrued expenses		3,230	3,230	67
Deferred revenue	73,173	226	73,399	39,923
Other current liabilities	107,923	3,605	111,528	329,980
Current portion of long-term debt	216,699	9,298	225,997	218,593
Obligation for unpaid prize awards		4,958	4,958	
Total current liabilities	916,985	44,663	961,648	729,440
Noncurrent Liabilities:				
Due to primary government				35,421
Due to other governments and agencies		222,352	222,352	322,540
Net OPEB obligation	13,257		13,257	28,496
Deferred revenue		6,875	6,875	8,246
Due to component units				2,837
Notes payable	8,175	419	8,594	17,549
Loans payable				275,919
Obligations under capital leases	207,581		207,581	10,189
Compensated absences	24,081	247	24,328	22,710
Bonds payable	2,357,592	240,559	2,598,151	3,685,238
Other liabilities	72,804		72,804	121,222
Total noncurrent liabilities	2,683,490	470,452	3,153,942	4,530,367
Total liabilities	3,600,475	515,115	4,115,590	5,259,807
Net Assets				
Invested in capital assets, net of related debt	2,115,001	(63,156)	2,051,845	1,313,794
Restricted for:				
Budget reserve	130,293		130,293	
Transportation	1,425		1,425	
Debt	84,758	11,036	95,794	351,406
Assistance to other entities	21,697		21,697	
Temporary disability insurance program	150,914		150,914	
Other	73,490		73,490	538,700
Nonexpendable	174		174	97,102
Unrestricted	(1,439,322)	(159,388)	(1,598,710)	355,818
Total net assets	$ 1,138,430	$ (211,508)	$ 926,922	$ 2,656,820

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 Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets — Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 644,194	$ 185,918	$ 113,749	$ 897	$ (343,630)	$	$ (343,630)	$
Human services	3,013,081	210,905	1,862,016	947	(939,213)		(939,213)	
Education	1,332,453	22,022	264,736	50	(1,045,645)		(1,045,645)	
Public safety	436,940	34,389	46,057	3,086	(353,408)		(353,408)	
Natural resources	80,360	29,046	20,049	4,139	(27,126)		(27,126)	
Transportation	300,366	372	80,933	152,913	(66,148)		(66,148)	
Interest and other charges	148,850				(148,850)		(148,850)	
Total governmental activities	5,956,244	482,652	2,387,540	162,032	(2,924,020)		(2,924,020)	
Business-type activities:								
State lottery	368,870	723,187				354,317	354,317	
Convention center	32,986	22,005				(10,981)	(10,981)	
Employment security	645,979	240,364	358,932			(46,683)	(46,683)	
Total business-type activities	1,047,835	985,556	358,932			296,653	296,653	
Total primary government	$ 7,004,079	$ 1,468,208	$ 2,746,472	$ 162,032	(2,924,020)	296,653	(2,627,367)	
Component units:	$ 1,213,159	$ 1,011,808	$ 82,572	$ 95,465				(23,314)
General Revenues:								
Taxes:								
Personal income					1,014,528		1,014,528	
General business					287,573		287,573	
Sales and use					1,007,145		1,007,145	
Gasoline					136,811		136,811	
Other					219,112		219,112	
Interest and investment earnings					5,561	79	5,640	24,223
Miscellaneous revenue (expense)					102,478	(5,454)	97,024	35,560
Gain (loss) on sale of capital assets								(10,356)
Transfers (net)					331,186	(331,186)		
Payments from primary government								202,374
Total general revenues and transfers					3,104,394	(336,561)	2,767,833	251,801
Change in net assets					180,374	(39,908)	140,466	228,487
Net assets - beginning as restated					958,056	(171,600)	786,456	2,428,333
Net assets - ending					$ 1,138,430	$ (211,508)	$ 926,922	$ 2,656,820

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

Major Funds

Governmental

General Fund – is the operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted.

Intermodal Surface Transportation 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. It also 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.

Proprietary

Enterprise Funds - account for operations where management has decided that periodic determination of revenues earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

State Lottery Fund - operates lottery games for the purpose of generating resources for the State's General Fund.

Rhode Island Convention Center Authority - created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund – accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers and federal grants to pay benefits to qualified unemployed persons.

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2011
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 188,547	$ 22,887	$ 307,149	$ 518,583
Funds on deposit with fiscal agent		105,101	44,077	149,178
Restricted investments			71,642	71,642
Receivables (net)	499,262	13,457	45,085	557,804
Due from other funds	32,519	586	2,774	35,879
Due from component units	55			55
Due from other governments and agencies	99,096	41,038		140,134
Loans to other funds	15,937			15,937
Other assets	53,538			53,538
Total assets	$ 888,954	$ 183,069	$ 470,727	$ 1,542,750
Liabilities and Fund Balances				
Liabilities				
Accounts payable	443,728	21,077	28,649	493,454
Due to other funds			34,439	34,439
Due to component units	3,323	4,368	688	8,379
Loans from other funds			13,227	13,227
Deferred revenue	88,365	20,782		109,147
Other liabilities	82,638	5,042	410	88,090
Total liabilities	618,054	51,269	77,413	746,736
Fund Balances				
Nonspendable	53,353		174	53,527
Restricted	197,885	135,310	392,941	726,136
Unrestricted				
Committed	5,956	1,448		7,404
Assigned	8,425	85	199	8,709
Unassigned	5,281	(5,043)		238
Total fund balances	270,900	131,800	393,314	796,014
Total liabilities and fund balances	$ 888,954	$ 183,069	$ 470,727	$ 1,542,750

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
June 30, 2011
(Expressed in Thousands)

Fund balance - total governmental funds		$	796,014
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.			
Capital assets	5,043,811		
Accumulated depreciation	(1,916,359)		
			3,127,452
Bonds, 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.			
Compensated absences	(87,311)		
Bonds payable	(2,463,461)		
Net premium/discount and deferred amount on refunding	(22,235)		
Refunding costs	6,744		
Cost of issuance	10,922		
Obligations under capital leases	(224,045)		
Premium	(5,051)		
Refunding costs	1,200		
Cost of issuance	2,076		
Interest payable	(24,445)		
Other liabilities	(99,161)		
			(2,904,767)
Other long-term assets and deferred revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	9,954		
Due from component units	37,595		
Other assets	5,104		
Deferred revenue	35,974		
			88,627
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 are reported with governmental activities.			31,104
Net assets - total governmental activities		$	1,138,430

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 Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,363,192	$ 136,811	$ 164,417	$ 2,664,420
Licenses, fines, sales, and services	309,687		(1,123)	308,564
Departmental restricted revenue	174,192	371		174,563
Federal grants	2,314,100	227,235		2,541,335
Income from investments	57	755	4,725	5,537
Other revenues	34,594	2,296	45,812	82,702
Total revenues	5,195,822	367,468	213,831	5,777,121
Expenditures:				
Current:				
General government	458,222		161,888	620,110
Human services	3,009,097			3,009,097
Education	1,287,549		184	1,287,733
Public safety	428,687			428,687
Natural resources	71,812		6	71,818
Transportation		365,726	1,770	367,496
Capital outlays			138,843	138,843
Debt service:				
Principal	106,961	33,546	13,968	154,475
Interest and other charges	75,634	23,954	38,478	138,066
Total expenditures	5,437,962	423,226	355,137	6,216,325
Excess (deficiency) of revenues over (under) expenditures	(242,140)	(55,758)	(141,306)	(439,204)
Other financing sources (uses):				
Operating transfers in	424,654	32,150	88,425	545,229
Other	17,462			17,462
Operating transfers out	(114,526)	(45,741)	(51,522)	(211,789)
Total other financing sources (uses)	327,590	(13,591)	36,903	350,902
Net change in fund balances	85,450	(69,349)	(104,403)	(88,302)
Fund balances - beginning (as restated)	185,450	201,149	497,717	884,316
Fund balances - ending	$ 270,900	$ 131,800	$ 393,314	$ 796,014

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 the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ (88,302)
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.			
	Capital outlay	230,746	
	Depreciation expense	(135,746)	
			95,000
Bond, note, and certificate 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.			
	Principal paid on debt	154,475	
	Accrued interest and other charges	(16,267)	
	Amortization of premium/discount	8,113	
	Deferral of issuance costs	413	
	Amortization of issuance costs	(1,928)	
	Amortization of refunding costs	(775)	
			144,031
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.			
	Compensated absences	(8,555)	
	Program expenses	18,186	
	Program revenue	(477)	
	Capital grant revenue	8,239	
	General revenue - taxes	746	
	General revenue-miscellaneous	2,353	
			20,492
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.			9,153
Change in net assets - total governmental activities			$ 180,374

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, 2011
(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	$ 18,229	$ 3,031	$ 3,301	$ 24,561	$ 38,716
Restricted cash and cash equivalents		11,035		11,035	
Funds on deposit with fiscal agent			1,517	1,517	
Receivables (net)	4,125	829	67,153	72,107	4,954
Due from other funds			3,118	3,118	412
Due from other governments and agencies			1,828	1,828	
Inventories	992			992	1,719
Other assets	51	437		488	6,914
Total current assets	23,397	15,332	76,917	115,646	52,715
Noncurrent assets:					
Capital assets - nondepreciable		45,712		45,712	
Capital assets - depreciable (net)	469	140,939		141,408	2,568
Other assets		3,908		3,908	
Total noncurrent assets	469	190,559		191,028	2,568
Total assets	23,866	205,891	76,917	306,674	55,283
Liabilities					
Current Liabilities:					
Accounts payable	11,951	3,757		15,708	17,608
Due to other funds	3,067			3,067	1,903
Due to other governments and agencies			7,638	7,638	
Loans from other funds					2,710
Accrued expenses	3,230			3,230	
Deferred revenue	226			226	
Other current liabilities	812	2,793		3,605	1,958
Notes payable		188		188	
Bonds payable		9,110		9,110	
Obligation for unpaid prize awards	4,958			4,958	
Total current liabilities	24,244	15,848	7,638	47,730	24,179
Noncurrent Liabilities:					
Due to other governments and agencies			222,352	222,352	
Deferred revenue	6,875			6,875	
Notes payable		419		419	
Bonds payable		240,559		240,559	
Compensated absences	247			247	
Total noncurrent liabilities	7,122	240,978	222,352	470,452	
Total liabilities	31,366	256,826	229,990	518,182	24,179
Net Assets					
Invested in capital assets, net of related debt	469	(63,625)		(63,156)	2,568
Restricted for:					
Debt		11,036		11,036	
Unrestricted	(7,969)	1,654	(153,073)	(159,388)	28,536
Total net assets	$ (7,500)	$ (50,935)	$ (153,073)	$ (211,508)	$ 31,104

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 Fiscal Year Ended June 30, 2011
(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	$	$ 21,635	$ 240,364	$ 261,999	$ 273,385
Lottery sales	230,593			230,593	
Video lottery, net	492,594			492,594	
Federal grants			358,932	358,932	
Miscellaneous		370		370	
Total operating revenues	723,187	22,005	599,296	1,344,488	273,385
Operating expenses:					
Personal services	4,826	13,407		18,233	11,889
Supplies, materials, and services	223,855	8,879		232,734	244,744
Prize awards, net of prize recoveries	139,955			139,955	
Depreciation and amortization	234	10,700		10,934	261
Benefits paid			645,979	645,979	
Total operating expenses	368,870	32,986	645,979	1,047,835	256,894
Operating income (loss)	354,317	(10,981)	(46,683)	296,653	16,491
Nonoperating revenues (expenses):					
Interest revenue	77	2		79	24
Other nonoperating revenue	1,092		24,347	25,439	(4)
Interest expense		(15,794)	(4,699)	(20,493)	
Other nonoperating expenses			(10,400)	(10,400)	
Total nonoperating revenue (expenses)	1,169	(15,792)	9,248	(5,375)	20
Income (loss) before transfers	355,486	(26,773)	(37,435)	291,278	16,511
Transfers in		23,130	6,953	30,083	
Transfers out	(354,861)		(6,408)	(361,269)	(7,358)
Change in net assets	625	(3,643)	(36,890)	(39,908)	9,153
Total net assets - beginning	(8,125)	(47,292)	(116,183)	(171,600)	21,951
Total net assets - ending	$ (7,500)	$ (50,935)	$ (153,073)	$ (211,508)	$ 31,104

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 Fiscal Year Ended June 30, 2011
(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	$ 233,199	$ 23,301	$ 240,574	$ 497,074	$ 274,676
Cash received from video lottery operations, net	492,594			492,594	
Cash received from grants			360,081	360,081	
Cash payments to suppliers for goods and services	(3,927)	(8,932)		(12,859)	(248,675)
Cash payments to employees for services	(4,867)	(13,682)		(18,549)	(11,477)
Cash payments to prize winners	(143,485)			(143,485)	
Cash payments for commissions	(216,017)			(216,017)	
Cash payments for benefits			(645,979)	(645,979)	
Other operating revenue (expense)			161	161	(78)
Net cash provided by (used for) operating activities	357,497	687	(45,163)	313,021	14,446
Cash flows from noncapital financing activities:					
Loan from federal government			89,908	89,908	
Loans from other funds					895
Loans to other funds					(1,025)
Repayment of loans to other funds					2,000
Repayment of loans from other funds					(645)
Operating transfers in		23,130	2,636	25,766	
Operating transfers out	(353,775)		(6,408)	(360,183)	(7,358)
Net transfers from (to) fiscal agent			(40,270)	(40,270)	
Net cash provided by (used for) noncapital financing activities	(353,775)	23,130	45,866	(284,779)	(6,133)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(8,848)		(8,848)	
Interest paid on capital obligations		(14,541)		(14,541)	
Acquisition of capital assets	(13)	(1,724)		(1,737)	(57)
Net cash provided by (used for) capital and related financing activities	(13)	(25,113)		(25,126)	(57)
Cash flows from investing activities:					
Interest on investments	77	2		79	24
Net cash provided by investing activities	77	2		79	24
Net increase (decrease) in cash and cash equivalents	3,786	(1,294)	703	3,195	8,280
Cash and cash equivalents, July 1	14,443	15,360	2,598	32,401	30,436
Cash and cash equivalents, June 30	$ 18,229	$ 14,066	$ 3,301	$ 35,596	$ 38,716
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	354,317	(10,981)	(46,683)	296,653	16,491
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	234	10,700		10,934	261
Other revenue (expense) and operating transfer in (out)	467			467	1
Net changes in assets and liabilities:					
Receivables, net	(1,352)	539	1,520	707	855
Inventory	100			100	(146)
Prepaid items		154		154	1,171
Other assets	199			199	
Due to / due from transactions	210			210	
Accounts and other payables	1,488	(481)		1,007	(4,599)
Accrued expenses	2,006			2,006	412
Deferred revenue	65	756		821	
Prize awards payable	(237)			(237)	
Total adjustments	3,180	11,668	1,520	16,368	(2,045)
Net cash provided by (used for) operating activities	$ 357,497	$ 687	$ (45,163)	$ 313,021	$ 14,446

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

Fiduciary Funds

Fiduciary Funds – used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the State's own programs.

Pension and Other Postemployment Benefits Trusts – used to report resources that are required to be held in trust for the members and beneficiaries of the State sponsored defined benefit pension plans and other postemployment benefit plans.

Private-Purpose Trust – used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Touro Jewish Synagogue – accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011
(Expressed in Thousands)

	Pension and Other Postemployment Benefit Trusts	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 6,006	$	$ 14,501
Deposits held as security for entities doing business in the State			85,841
Advance held by claims processing agent	1,171		
Receivables			
Contributions	29,997		
Due from state for teachers	13,959		
Miscellaneous	2,693		1,517
Total receivables	46,649		1,517
Investments, at fair value			
Equity in Pooled Trust	7,462,527		
Other investments		2,114	
Total investments	7,462,527	2,114	
Property and equipment, at cost, net of accumulated depreciation	2,262		
Total assets	7,518,615	2,114	101,859
Liabilities			
Accounts payable	4,800		3,486
Incurred but not reported claims	3,740		
Deferred revenue	6,065		
Other	170		
Deposits held for others			98,373
Total liabilities	14,775		$ 101,859
Net assets			
Held in trust for:			
Pension benefits	7,488,903		
Other postemployment benefits	14,937		
Other		2,114	
Total net assets	$ 7,503,840	$ 2,114	

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Pension and Other Postemployment Benefit Trusts	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 192,353	$
Employer contributions	329,359	
State contributions for teachers	70,286	
Interest on service credits purchased	1,163	
Total contributions	593,161	
Other income	1,875	
Investment income		
Net appreciation in fair value of investments	1,169,409	343
Interest	84,476	
Dividends	2,841	37
Other investment income	15,446	1
	1,272,172	381
Less investment expense	15,092	
Net income from investing activities	1,257,080	381
Total additions	1,852,116	381
Deductions		
Benefits		
Retirement benefits	634,632	
Cost of living adjustment	180,213	
SRA Plus Option	26,689	
Supplemental benefits	1,089	
Death benefits	3,336	
OPEB benefits	59,663	
Total benefits	905,622	
Refund of contributions	11,243	
Administrative expense	8,548	
Distribution		88
Total deductions	925,413	88
Change in net assets held in trust for:		
Pension benefits	911,766	
Other postemployment benefits	14,937	
Other		293
Net assets - beginning	6,577,137	1,821
Net assets - ending	$ 7,503,840	$ 2,114

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2011
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Assets				
Current Assets:				
Cash and cash equivalents	$ 1,332	$ 55,390	$ 21,823	$ 5,936
Investments				4,059
Receivables (net)	2,829	8,024	7,520	3,350
Restricted assets:				
Cash and cash equivalents	227,866	26,614		
Investments	102,710			
Receivables (net)				
Other assets	29,901	7,798		
Due from primary government		292		5,979
Due from other governments		553		
Due from other component units		38		
Inventories			3,475	2,880
Other assets	2,205	1,858	2,872	111
Total current assets	366,843	100,567	35,690	22,315
Noncurrent Assets:				
Investments	9,435			
Receivables (net)		5,303		
Restricted assets:				
Cash and cash equivalents		59,140	741	
Investments	167,217	953	1,645	
Other assets	1,579,483	30,546	83,057	
Capital assets - nondepreciable		106,365	25,302	6,040
Capital assets - depreciable (net)		557,633	20,096	151,588
Due from other component units		697		
Other assets, net of amortization	131,269	5,223	11,519	
Total noncurrent assets	1,887,404	765,860	142,360	157,628
Total assets	2,254,247	866,427	178,050	179,943
Liabilities				
Current liabilities:				
Cash overdraft				
Accounts payable	485	30,212	7,976	6,320
Due to primary government				618
Due to other component units				
Due to other governments				
Accrued liabilities				
Deferred revenue		8,172		114
Other liabilities	292,827			5,422
Current portion of long-term debt	115,193	11,519	8,400	
Total current liabilities	408,505	49,903	16,376	12,474
Noncurrent liabilities:				
Due to primary government		6,790		12,266
Due to other governments				
Due to other component units				
Deferred revenue	6,581	593		
Notes payable	14,557	1,434		
Loans payable		23,838		
Obligations under capital leases		64		
Net OPEB obligation	2,756	1,766	315	23,659
Other liabilities	3,259		81,376	8,028
Compensated absences	1,314			
Bonds payable	1,526,932	333,569	11,942	
Total noncurrent liabilities	1,555,399	368,054	93,633	43,953
Total liabilities	1,963,904	417,957	110,009	56,427
Net assets				
Invested in capital assets, net of related debt	9,144	345,769	39,887	144,743
Restricted for:				
Debt	231,845			
Other		48,033	3,761	
Other nonexpendable	2,505			
Unrestricted	46,849	54,668	24,393	(21,227)
Total net assets	$ 290,343	$ 448,470	$ 68,041	$ 123,516

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2011
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 95,136	$ 22,406	$ 26,114	$ 63,188	$ 291,325
Investments				21,134	25,193
Receivables (net)	34,318	4,830	4,175	95,318	160,364
Restricted assets:					
Cash and cash equivalents	1,741			272,603	528,824
Investments				169,818	272,528
Receivables (net)			14		14
Other assets	525			53,166	91,390
Due from primary government		1,876			8,147
Due from other governments				1,591	2,144
Due from other component units				189	227
Inventories	2,856	657	722	122	10,712
Other assets	451		195	32,637	40,329
Total current assets	135,027	29,769	31,220	709,766	1,431,197
Noncurrent Assets:					
Investments	122,076		2,081	22,427	156,019
Receivables (net)	16,850	4,251	24	935,826	962,254
Restricted assets:					
Cash and cash equivalents	57	137	2,971	52,515	115,561
Investments		21,013		37,166	227,994
Other assets	74,901	10,606	778	745,369	2,524,740
Capital assets - nondepreciable	59,409	6,583	9,069	232,381	445,149
Capital assets - depreciable (net)	438,197	90,404	40,871	575,781	1,874,570
Due from other component units				2,140	2,837
Other assets, net of amortization	10,705	25		17,565	176,306
Total noncurrent assets	722,195	133,019	55,794	2,621,170	6,485,430
Total assets	857,222	162,788	87,014	3,330,936	7,916,627
Liabilities					
Current liabilities:					
Cash overdraft				242	242
Accounts payable	27,145	7,559	8,423	13,987	102,107
Due to primary government		1,556		97	2,271
Due to other component units				227	227
Due to other governments				36,030	36,030
Accrued liabilities				67	67
Deferred revenue	15,278	1,873	2,929	11,557	39,923
Other liabilities	845	5,025	1,251	24,610	329,980
Current portion of long-term debt	9,478	4,605	4,424	64,974	218,593
Total current liabilities	52,746	20,618	17,027	151,791	729,440
Noncurrent liabilities:					
Due to primary government		16,365			35,421
Due to other governments				322,540	322,540
Due to other component units				2,837	2,837
Deferred revenue				1,072	8,246
Notes payable		1,531	27		17,549
Loans payable	1,325			250,756	275,919
Obligations under capital leases	8,570		1,428	127	10,189
Net OPEB obligation					28,496
Other liabilities	12,793	3,962		11,804	121,222
Compensated absences	18,191	2,076	644	485	22,710
Bonds payable	245,801	19,618	1,964	1,545,412	3,685,238
Total noncurrent liabilities	286,680	43,552	4,063	2,135,033	4,530,367
Total liabilities	339,426	64,170	21,090	2,286,824	5,259,807
Net assets					
Invested in capital assets, net of related debt	312,789	67,036	43,632	350,794	1,313,794
Restricted for:					
Debt				119,561	351,406
Other	50,131	4,227	3,195	429,353	538,700
Other nonexpendable	79,323	15,274			97,102
Unrestricted	75,553	12,081	19,097	144,404	355,818
Total net assets	$ 517,796	$ 98,618	$ 65,924	$ 1,044,112	$ 2,656,820

(Concluded)

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

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Operating revenues:				
Charges for services	$ 10,183	$ 59,224	$ 49,165	$ 29,499
Interest income on loans	84,825	657		
Investment income (net)	11,292			
Other operating income		2,884	2,757	1,590
Total operating revenues	106,300	62,765	51,922	31,089
Operating expenses:				
Personal services	14,699	23,367	12,217	73,396
Supplies, materials, and services	4,383	14,790	17,115	23,609
Interest expense	65,386			
Grants, scholarships and contract programs	8,499	1,797	1,969	
Depreciation, depletion and amortization	2,526	21,170	10,400	12,674
Other operating expenses	6,105	2,602	1,111	5,149
Total operating expenses	101,598	63,726	42,812	114,828
Operating income (loss)	4,702	(961)	9,110	(83,739)
Nonoperating revenues (expenses):				
Interest revenue		4,023	1,040	55
Grants		6,429		24,373
Payments (to) from primary government		16,501		41,025
Gain (loss) on sale of property		62	(10,564)	(5)
Interest expense		(16,440)	(685)	(483)
Investment income (net)				
Other nonoperating revenue (expenses)		(10,497)		3,341
Total nonoperating revenue (expenses)		78	(10,209)	68,306
Income (loss) before contributions	4,702	(883)	(1,099)	(15,433)
Capital contributions		1,090		50,812
Change in net assets	4,702	207	(1,099)	35,379
Total net assets - beginning as restated	285,641	448,263	69,140	88,137
Total net assets - ending	$ 290,343	$ 448,470	$ 68,041	$ 123,516

(continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Operating revenues:					
Charges for services	$ 281,600	$ 66,406	$ 31,357	$ 118,686	$ 646,120
Interest income on loans				56,905	142,387
Investment income (net)				7,353	18,645
Other operating income	110,814	28,172	41,590	16,849	204,656
Total operating revenues	392,414	94,578	72,947	199,793	1,011,808
Operating expenses:					
Personal services	265,222	93,440	91,656	35,026	609,023
Supplies, materials, and services	120,252	23,241	10,295	32,792	246,477
Interest expense				47,387	112,773
Grants, scholarships and contract programs	29,119	6,792	6,489	15,979	70,644
Depreciation, depletion and amortization	23,447	6,103	3,481	16,750	96,551
Other operating expenses	7,376		105	14,625	37,073
Total operating expenses	445,416	129,576	112,026	162,559	1,172,541
Operating income (loss)	(53,002)	(34,998)	(39,079)	37,234	(160,733)
Nonoperating revenues (expenses):					
Interest revenue				1,414	6,532
Grants		2,427		49,343	82,572
Payments (to) from primary government	56,619	37,568	42,884	7,777	202,374
Gain (loss) on sale of property				151	(10,356)
Interest expense	(8,559)	(1,790)	(180)	(12,481)	(40,618)
Investment income (net)	13,631	3,573	486	1	17,691
Other nonoperating revenue (expenses)	18,623	3,537	1,669	18,887	35,560
Total nonoperating revenue (expenses)	80,314	45,315	44,859	65,092	293,755
Income (loss) before contributions	27,312	10,317	5,780	102,326	133,022
Capital contributions	31,061	3,878	4,581	4,043	95,465
Change in net assets	58,373	14,195	10,361	106,369	228,487
Total net assets - beginning as restated	459,423	84,423	55,563	937,743	2,428,333
Total net assets - ending	$ 517,796	$ 98,618	$ 65,924	$ 1,044,112	$ 2,656,820

(Concluded)

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

Index

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 a) legally separate entities for which a primary government (such as the State) is financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said 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 either a) the ability of the State to impose its will on that entity or b) the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, and the State university and colleges to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the fact that the State appoints a voting majority of the entity's governing body or because of the entity's potential to provide specific financial benefits to, or to impose specific financial burdens on, the State.

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.

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. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in 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.

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.

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Separately issued financial statements are not available for the RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide 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. The State distinguishes between major and nonmajor component units based upon several quantitative and qualitative factors including the total assets, net assets and revenues of each component unit as well as the significance of transactions between the component unit and the primary government. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

University and Colleges

The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the 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 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. The financial statements can also be viewed at www.ribghe.org.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

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, or at www.rhodeislandhousing.org.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the State and federal 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, or at www.ripta.com.

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, so as to promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R.I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. 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, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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, or at www.rirrc.org.

Nonmajor Component Units

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, or at www.risla.com.

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.

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. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905, or at www.narrabay.com.

Rhode Island Health and Educational Building Corporation (RIHEBC)

This corporation has the following purposes: (1) to assist in providing financing for education facilities 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 that are payable from revenues derived from the projects financed or other monies 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 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, or at www.riheaa.org.

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 by writing to the Director of Finance and

Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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. 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, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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 to 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, 235 Promenade Street, Providence, RI 02908.

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, or at www.ripbs.org.

The College Crusade of Rhode Island (TCCRI)

This is a Rhode Island nonprofit corporation, formerly named the Rhode Island Children's Crusade for Higher Education, 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 College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

Related Organization

Central Falls School District

The Central Falls School District ("District") is governed by a seven member board of trustees that is appointed by the State's Board of Regents for Elementary and Secondary Education ("Board"). In addition, the Commissioner of Education and the Board also have authority over the development and approval of the District's operating budget. The District is considered legally part of the City of Central Falls and is included in the City's financial statements.

C. Financial Statement Presentation

Government-wide 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 the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – This category represents the portion of net assets whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) 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. The use of unrestricted net assets is often subject to constraints imposed by management, but such 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 specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

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.

Fund Financial Statements

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.

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.

Permanent Fund **-** The Permanent School Fund accounts for certain resources 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, among other things, employee and retiree medical benefits, State fleet management, unemployment and workers' compensation for State employees, industrial prison operations, surplus property, telecommunications and other utilities, and records maintenance.

Enterprise Funds **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

Pension and Other Post Employment Benefit Trust Funds

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.

Other Post Employment Benefit (OPEB) Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulate resources for other post employment benefit payments to qualified employees.

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, assets pledged to the State as required by statute, and health insurance for certain retirees.

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.

Major Funds

Governmental 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. It also 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.

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. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans' Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

This fund accounts for the State's unemployment compensation program. 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.

D. Measurement Focus and Basis of Accounting

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 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. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. 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. 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 these definitions are reported as nonoperating revenues and expenses.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a 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.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities represent the unexpended portion of debt instruments sold primarily for capital acquisitions and historic tax credit financing, as well as funds held by the United States Treasury 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, as opposed to a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable amounts is also reflected.

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, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other 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 (first-in, first-out). 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.

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5 thousand	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized by the State. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, issuance costs and deferred amounts on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums, deferred amounts on refundings, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(E)).

O. 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. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Assets and Liabilities

Other assets primarily include prepaid expenditures for managed care capitation coverage under the State's Medical Assistance program. Contract provisions with the State's participating Health Maintenance Organizations require coverage amounts to be paid in advance of the month of coverage. Deposits required by contract with the State's healthcare claims administrator are also reported as other assets.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

Q. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.

- Committed – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2011, the State adopted the following new accounting standards issued by GASB:

> GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* requires, within the governmental funds, that fund balance be reorganized to include identifications of amounts that are considered nonspendable, such as fund balance associated with inventories and permanent funds. Additional classifications of restricted, committed, assigned and unassigned amounts will be used based on the relative strength of the constraints that control how specific amounts can be spent. Restricted fund balances are those that can only be spent on specific

purposes stipulated by constitution, external resource providers or through enabling statute. Committed balances are those that can be used only for actions authorized by the State's highest level of decision-making authority. Assigned balances are to be used for specific purposes, but are not restricted or committed. Unassigned fund balances will only be shown in the General Fund and will be those that are not restricted, committed, or assigned. To implement this statement, the fund balance section of the balance sheet for the governmental funds was reorganized and additional disclosures have been included in the notes to the basic financial statements.

GASB Statement No. 59 – *Financial Instruments Omnibus* improved financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards.

The State will adopt the following new accounting pronouncements in future years:

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* certain provisions are effective for the State's fiscal year ending June 30, 2012.

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the State's fiscal year ending June 30, 2012.

The State is determining the impact of these new pronouncements on future financial statements.

S. Changes in Presentation

The GARVEE fund was a capital projects fund that was used to record certain bond issues and related transportation infrastructure expenditures. Since the last of these bond authorizations were issued in May 2009 and the majority of the designated construction projects have been completed, the GARVEE fund was merged into the IST fund for fiscal year 2011.

The State has elected to categorize discretely presented component units as major and nonmajor as part of the basic financial statements for fiscal year 2011.

Effective July 1, 2010, the State created the Rhode Island State Employees' and Electing Teachers OPEB System (the "System"). The System's financial statements are reported as Other Post Employment Benefit (OPEB) Trust Funds in the Fiduciary Funds within the State's basic financial statements. The System includes six separate plans to separately account for the administration of retiree health coverage for qualified State employees (including employees of certain component units), electing teachers, judges, state police officers, legislators, and certain employees of the Board of Governor's for Higher Education. During fiscal 2011, the State transferred residual net assets previously accumulated in internal service and agency funds to the System.

For fiscal 2011 the Lottery included <u>net</u> video terminal revenue in the financial statements as compared to <u>gross</u> video revenue and prize awards reported in the prior periods. Prior period amounts included in Management's Discussion and Analysis have been restated to conform to the new net presentation.

T. Change in Reporting Entity

The classification of the Central Falls School District was changed from a discretely presented component unit of the State to a related organization for fiscal 2011. The District is considered legally part of the City of Central Falls and is included in the City's financial statements.

Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

At June 30, 2011, the carrying amount of the State's cash deposits was $358,665,000 and the bank balance was $374,144,000. The bank balances include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

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 were required to be collateralized at June 30, 2011 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

Effective December 31, 2010, federal depository insurance provisions were amended to provide 100% insurance coverage to noninterest-bearing transaction accounts through December 31, 2012.

The following summarizes the State's exposure to custodial credit risk (expressed in thousands) for deposits at June 30, 2011 within the governmental and business type activities:

Bank balance	$ 374,144
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian in the State's name	374,144
Uninsured and uncollateralized balance	$ 0

Cash Equivalent Investments and 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 certain blended 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 restricted investments, equaling $71,642,000, are held by the Tobacco Settlement Financing Corporation, a nonmajor governmental fund.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

The State's investments (expressed in thousands) at June 30, 2011 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 19,026	$ 19,026	$ 0	$ 0	$ 0
Money Market Mutual Funds	232,138	$ 232,138	$ 0	$ 0	$ 0
Commercial Paper	52,616	52,616	0	0	0
Repurchase Agreements	2,091	2,091	0	0	0
	305,871	$ 305,871	$ 0	$ 0	$ 0

(71,642)	Restricted investments
234,229	Cash equivalents
358,666	Cash deposits
$ 592,895	Total cash and cash equivalents
	Statement of Net Assets
$ 581,860	Cash and cash equivalents
11,035	Restricted cash and cash equivalents
$ 592,895	Total cash and cash equivalents

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2011, information about the State's exposure to credit risk for investments (expressed in thousands) is as follows:

Issuer	Fair Value	Type of Investment	S & P Rating	Average Maturities in Days
US Government Agencies				
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 19,026		AAA	
Money Market Funds				
Black Rock Liquidity Funds: Fed Fund	43,664	Money Market	AAAm	31
Fidelity Institutional Money Market Funds Gvt. Port Class I	176,732	Money Market	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	11,584	Money Market	AAAm	44
Goldman Sachs Treasury Investment	7	Money Market	AAAm	25
Wells Fargo Advantage 100% Treasury Plus	151	Money Market	AAAm-G	50
Commercial Paper				
Silver Tower US Funding	14,602	Commercial Paper	A-1	
Banco Bilbao Vizcaya	38,014	Commercial Paper	A-1	
TOTAL	$ 303,780			

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2011 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 14,974	$ 14,974	$ 0	$ 0	$ 0
Money Market Mutual Funds	129,193	129,193	0	0	0
Investment Contracts	5,011	5,011	0	0	0
Funds on deposit with fiscal agent	$ 149,178	$ 149,178	$ 0	$ 0	$ 0

The above funds on deposit with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	S & P Rating	Average Maturities in Days
US Government Agencies			
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 3,080	AAA	
Federal Home Loan Bank (FHLBank)	11,647	AAA	
Federal National Mortgage Association (Fannie Mae)	247	AAA	
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	8,761	AAAm-G	56
Federated Govt. Obligation Tax Managed Fund	17,117	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	99,864	AAAm	44
JP Morgan US Govt. Money Market Fund Agency Class	2,423	AAAm	48
JP Morgan US 100% Treasury Securities Money Market Fund	1	AAAm-G	27
Wells Fargo Advantage 100% Treasury Money Market Fund	1,027	AAAm-G	50
Investment Contracts			
FSA Capital Management GIC	5,011		
TOTAL	$ 149,178		

Funds on deposit with fiscal agent also includes $1,517,000 held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Black Rock Liquidity Funds: Fed Fund	$ 43,664	9.64%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	176,732	39.02%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class III	111,448	24.60%
Commercial Paper	Banco Bilbao Vizcaya	38,014	8.39%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRBT).

Cash Deposits and Cash Equivalents

At June 30, 2011, the carrying amount of the ERS cash deposits was $3,529,000 and the bank balance was $4,285,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, $3,031,821 is covered by federal depository insurance and the remainder representing interest-bearing collateralized bank deposits totaling $1,253,398 is collateralized (102%) with U.S. Treasury and agencies held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that 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 System's deposits were required to be collateralized at June 30, 2011 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the ERS. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the ERS, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds assets of the ERS in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the trust. Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust at June 30, 2011 (expressed in thousands):

Investment Type		Fair Value
Cash Deposits	$	15,000
Money Market Mutual Fund		819,602
U.S. Government Securities		508,163
U.S. Government Agency Securities		487,503
Collateralized Mortgage Obligations		23,389
Corporate Bonds		730,595
Domestic Equity Securities		101,112
International Equity Securities		15,893
Foreign Currencies		3,698
Commingled Funds - Domestic Equity		2,565,168
Commingled Funds - International Equity		1,328,371
Private Equity		606,555
Real Estate		
Limited Partnership		108,822
Commingled Funds		90,169
Real Estate Investment Trusts		45,157
	$	7,449,197
Net investment receivable (payable)		(9,079)
Total	$	7,440,118

Consistent with a target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined, generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager’s portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Duration is a measure of a debt security’s exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment’s full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio’s effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2011, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2011 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	508,163	4.70
U.S. Government Agency Securities		487,503	4.57
Collateralized Mortgage Obligations		23,389	7.67
Corporate Bonds		730,595	5.77
Total Fixed Income	$	1,749,650	5.15

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with an average maturity of 33 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. 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 ERS may invest in interest-only (IO) and principal-only (PO) strips 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 prepayments 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.

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities.

The ERS's exposure to credit risk as of June 30, 2011 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 15,772	$ 487,503	$ 73,266
Aa	194		94,070
A	2,411		163,539
Baa	995		196,880
Ba	695		72,499
B	1,777		87,920
Caa	352		17,605
Ca			228
Not rated	1,193		24,588
Fair Value	$ 23,389	$ 487,503	$ 730,595

(1) Moody's Investors Service

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2011 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 17.50%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2011 (expressed in thousands), was as follows:

Currency	Commingled Fund	Foreign Cash	Equities	Private Equity	Total
Australian Dollar	$ 76,408	$ 245	$	$	$ 76,653
Brazilian Real	47,835				47,835
Canadian Dollar	103,999	120	363	13,254	117,736
Chilean Peso	5,461				5,461
Colombian Peso	2,605				2,605
Czech Koruna	1,242				1,242
Danish Krone	9,863				9,863
Egyptian Pound	1,038				1,038
Euro Currency	279,774	2,040	3,148	97,860	382,822
Hong Kong Dollar	77,682	74	5,883		83,639
Hungarian Forint	1,364				1,364
Indian Rupee	27,324				27,324
Indonesian Rupiah	8,236				8,236
Israeli Shekel	6,495				6,495
Japanese Yen	179,011	819	4,487		184,317
Malaysian Ringitt	11,811				11,811
Mexican Peso	15,310				15,310
Moroccan Dirham	439				439
New Russian Ruble	59				59
New Taiwan Dollar	32,922				32,922
New Zealand Dollar	936				936
Norwegian Krone	8,097				8,097
Philippine Peso	3,493				3,493
Polish Zloty	5,754				5,754
Pound Sterling	188,251	359			188,610
Singapore Dollar	14,977				14,977
South African Rand	21,071				21,071
South Korean Won	39,338				39,338
Sri Lanka Rupee	525				525
Swedish Krona	28,162	41	2,012	114	30,329
Swiss Franc	74,136				74,136
Thailand Baht	5,468				5,468
Turkish Lira	4,952				4,952
Total	$ 1,284,038	$ 3,698	$ 15,893	$ 111,228	$ 1,414,857
US Dollar	44,333				
Commingled Fund	$ 1,328,371				

Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indexes.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, securities purchased prior to issuance, and short sales. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain exposure to a specific market, or mitigate specific risks. 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 ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. 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 ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments and if there is an illiquid secondary market for the contracts.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in the *Interest Rate Risk* section.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarize the ERS's exposure to specific derivative investments at June 30, 2011 (expressed in thousands):

Investment Derivative Instruments		Change in fair value included in investment income		Fair value at June 30, 2011			Notional amount
Equity options written	$	139	$			$	
Fixed income futures - long		8,916					260,533
Foreign currency forward contracts		(1,089)		259	(a)		(1,908)
Index futures - long		1,973					2,302
Index futures - short		(18,622)					(9,740)
Warrants		8		33			33
	$	(8,675)	$	292			

(a) - Foreign Currency Forward Contracts

Pending receivable	$	395
Pending payable		(136)
Foreign currency forward contract asset (liability)	$	259

The ERS is exposed to credit risk on derivative instruments that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2011 was $395,000. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The ERS executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of counterparties for all but 2% (which were unrated) were Aa3 (Moody's) or better.

D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Governors.

Cash Deposits and Cash Equivalents

At June 30, 2011, the carrying amount of the OPEB System's cash deposits and the bank balance were both $2,477,000. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b) (3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account.

Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2011 (expressed in thousands):

Investment Type	Fair Value
U.S. Government Securities	$ 1,524
Corporate Bonds	3,203
Money Market Mutual Fund	13,727
Commingled Funds - Domestic Equity	7,168
	$ 25,622
Net investment receivable (payable)	(3,213)
Total	$ 22,409

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2011 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 1,524	5.43
Corporate Bonds	3,203	5.92
Total Fixed Income	$ 4,727	5.76

The OPEB System's investments in State Street Institutional Liquid Reserves, a money market mutual fund, had an average maturity of 33 days at June 30, 2011.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. At June 30, 2011, all debt securities were U.S. Government Obligations and corporate bonds.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2011 is as follows (expressed in thousands):

Quality Rating (1)	U.S. Government Obligations	Corporate Bonds
Aaa	$ 1,524	
Aa		$ 372
A		991
Baa		1,743
Ba		97
Fair Value	$ 1,524	$ 3,203

(1) Moody's Investors Service

The OPEB System's investment in a short-term money market mutual fund (State Street Institutional Liquid Reserves) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2011, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, State Street Bank and Trust Co.

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,113,653 in the Fidelity Balanced Fund.

F. Agency Funds

At June 30, 2011, the carrying amount of the State's cash deposits within the agency funds was $14,501,000 and the bank balance was $13,917,000. The bank balances include demand deposit accounts and interest-bearing deposit accounts. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

The following summarizes the State's exposure to custodial credit risk for deposits at June 30, 2011 within the agency funds (expressed in thousands):

Bank balance	$ 13,917
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian	13,917
Uninsured and uncollateralized balance	$ 0

Note 3. Receivables

Receivables at June 30, 2011 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 426,442	$ 317,549	$ 1,000	$ 744,991	$ 150,098	$ 37,692
Less: Allowance for Uncollectibles	86,233	96,000		182,233		
Governmental receivables, net	340,209	221,549	1,000	562,758	150,098	37,692
Business-type receivables	68,316	25,084		93,400	1,828	
Less: Allowance for Uncollectibles	4,703	16,590		21,293		
Business-type receivables, net	63,613	8,494		72,107	1,828	
Receivables, Net of Allowance for Uncollectibles	403,822	230,043	1,000	634,865	151,926	37,692
Less: Current Portion						
Governmental receivables	332,600	213,966	1,000	547,566	144,978	2,271
Business-type receivables	63,613	8,494		72,107	1,828	
Noncurrent Receivables, Net	$ 7,609	$ 7,583	$	$ 15,192	$ 5,120	$ 35,421

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2011 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 32,519	$	Loans to other funds
Intermodal Surface Transportation	586		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		575	Debt service and administrative costs
Bond Capital		8,854	State match for transportation
RI Capital Plan		25,010	Excess transfer owed to General Fund
RI Historic Tax Credit	1,576		Tax credit fees owed to fund
Certificates of Participation	1,198		Fees restricted for COPS debt service
Total Non-Major Funds	2,774	34,439	
Total Governmental	35,879	34,439	
Proprietary Funds			
Enterprise			
RI Lottery		3,067	Net income owed to General Fund
Employment Security Trust	3,118		Benefit reimbursements
Total Enterprise	3,118	3,067	
Internal Service	412	1,903	Settlement of services rendered
Total primary government	$ 39,409	$ 39,409	

Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 349,811	$ 2,109	$ (47)	$ 351,873
Works of Art	422	861		1,283
Intangibles	151,076	4,130		155,206
Construction in progress *	463,964	215,672	(252,177)	427,459
Total capital assets not being depreciated or amortized	965,273	222,772	(252,224)	935,821
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	587,448	61,667	(4,729)	644,386
Building Improvements	210,608	49,458		260,066
Furniture and equipment	235,227	11,836	(4,715)	242,348
Intangibles	11,986	2,063		14,049
Infrastructure *	2,811,359	245,277	(106,921)	2,949,715
Total capital assets being depreciated or amortized	3,860,328	370,301	(116,365)	4,114,264
Less accumulated depreciation or amortization for:				
Land improvements	3,233	95		3,328
Buildings *	191,319	12,019	(3,178)	200,160
Building Improvements	159,471	8,576		168,047
Furniture and equipment	200,205	16,220	(4,784)	211,641
Intangibles	6,614	4,221		10,835
Infrastructure *	1,231,178	94,876		1,326,054
Total accumulated depreciation or amortization	1,792,020	136,007	(7,962)	1,920,065
Total capital assets being depreciated or amortized, net	2,068,308	234,294	(108,403)	2,194,199
Governmental activities capital assets, net	$ 3,033,581	$ 457,066	$ (360,627)	$ 3,130,020

* Beginning balances have been restated, see Note 17, Section F.

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

General government	$ 11,848
Human services	8,146
Education	3,105
Public safety	11,862
Natural resources	3,680
Transportation	97,366
Total depreciation or amortization expense - governmental activities	$ 136,007

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	649	148	(643)	154
Total capital assets not being depreciated	46,207	148	(643)	45,712
Capital assets being depreciated:				
Buildings	234,086	44		234,130
Machinery and equipment	22,943	2,172	(159)	24,956
Total capital assets being depreciated	257,029	2,216	(159)	259,086
Less accumulated depreciation	106,953	10,884	(159)	117,678
Total capital assets being depreciated, net	150,076	(8,668)		141,408
Business-type activities capital assets, net	$ 196,283	$ (8,520)	$ (643)	$ 187,120

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 112,181	$ 3,055	$ (272)	$ 114,964
Construction in progress *	417,423	160,082	(247,570)	329,935
Other	250			250
Total capital assets not being depreciated or amortized	529,854	163,137	(247,842)	445,149
Capital assets being depreciated or amortized:				
Buildings *	1,528,400	215,227	(5,684)	1,737,943
Land improvements *	183,704	9,810	(18,539)	174,975
Machinery and equipment	313,869	74,942	(24,244)	364,567
Intangibles	4,100			4,100
Infrastructure	642,983	20,603		663,586
Total capital assets being depreciated or amortized	2,673,056	320,582	(48,467)	2,945,171
Less accumulated depreciation or amortization for:				
Buildings *	592,846	55,823	(2,401)	646,268
Land improvements	110,669	6,953	(11,530)	106,092
Machinery and equipment *	200,834	21,534	(22,709)	199,659
Intangibles	2,255	1,845		4,100
Infrastructure	103,542	10,940		114,482
Total accumulated depreciation or amortization	1,010,146	97,095	(36,640)	1,070,601
Total capital assets being depreciated or amortized, net	1,662,910	223,487	(11,827)	1,874,570
Total capital assets, net	$ 2,192,764	$ 386,624	$ (259,669)	$ 2,319,719

* Beginning balances have been restated.

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are presented in the following table:

(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,118,030	$	$ (68,630)	$ 1,049,400	$ 73,230	$ 976,170
RIEDC Grant Anticipation Revenue Bonds	400,515		(28,205)	372,310	29,590	342,720
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	77,645		(3,585)	74,060	3,710	70,350
Tobacco Settlement Asset-Backed Bonds	807,731		(12,570)	795,161		795,161
Accreted interest on TSFC bonds	37,369	14,341		51,710		51,710
RIEDC Historic Tax Credit Bonds	135,195		(14,375)	120,820	14,830	105,990
Net unamortized premium/discount	28,660	352	(6,777)	22,235		22,235
Deferred amount on refunding	(7,252)		508	(6,744)		(6,744)
Bonds Payable, net	2,597,893	14,693	(133,634)	2,478,952	121,360	2,357,592
Obligation under capital leases (see section E)	244,805		(20,760)	224,045	20,315	203,730
Net unamortized premium/discount	6,025	5	(979)	5,051		5,051
Deferred amount on refunding	(1,467)		267	(1,200)		(1,200)
Obligation under capital leases, net	249,363	5	(21,472)	227,896	20,315	207,581
Compensated absences	80,302	75,768	(66,801)	89,269	65,188	24,081
Net OPEB Obligation (see note 14 C)	36,212		(22,955)	13,257		13,257
Special obligation notes	19,450		(6,350)	13,100	4,925	8,175
Other Long-term Liabilities						
Arbitrage rebate	2,656		(2,656)			
Pollution remediation	20,121	3,455	(3,354)	20,222	2,823	17,399
Other	58,744	7,037	(8,288)	57,493	2,088	55,405
Total Governmental Long-term Liabilities	$ 3,064,741	$ 100,958	$ (265,510)	$ 2,900,189	$ 216,699	$ 2,683,490
Business-type Activities						
Revenue bonds (see section B)	$ 268,280	$	$ (8,660)	$ 259,620	$ 9,110	$ 250,510
Net unamortized premium/discount	1,096		(133)	963		963
Deferred amount on refunding	(12,082)		1,168	(10,914)		(10,914)
Revenue bonds, net	257,294		(7,625)	249,669	9,110	240,559
Notes payable	795		(188)	607	188	419
Net OPEB Obligation	139		(139)			
Deferred Revenue	8,125		(625)	7,500	625	6,875
Compensated absences	362	347	(275)	434	187	247
Due to Other Governments and Agencies (see Section J)	225,473	89,907	(93,028)	222,352		222,352
Other long-term liabilities	72		(72)			
Total Business-type Long-term Liabilities	$ 492,260	$ 90,254	$ (101,952)	$ 480,562	$ 10,110	$ 470,452
Component Units						
Bonds payable (see section B)	$ 4,089,778	$ 209,662	$ (529,772)	$ 3,769,668	$ 114,029	$ 3,655,639
Net unamortized premium/discount	40,716	2,398	(1,273)	41,841	105	41,736
Deferred amount on refunding	(13,375)		1,238	(12,137)		(12,137)
Bonds Payable, net	4,117,119	212,060	(529,807)	3,799,372	114,134	3,685,238
Notes payable (see section C)	80,357	289,078	(286,413)	83,022	65,473	17,549
Loans payable (see section D)	262,767	49,553	(17,470)	294,850	18,931	275,919
Obligations under capital leases	13,784	144	(1,990)	11,938	1,749	10,189
Net OPEB obligation	30,252	7,091	(8,847)	28,496		28,496
Compensated absences	30,328	3,522	(895)	32,955	10,245	22,710
Due to primary government	35,342	4,499	(2,149)	37,692	2,271	35,421
Due to Other Governments and Agencies	584,129		(225,559)	358,570	36,030	322,540
Deferred Revenue	42,234	6,214	(279)	48,169	39,923	8,246
Due to Component Units	3,782		(718)	3,064	227	2,837
Other Long-term liabilities						
Arbitrage rebate	18,427	1,290	(4,890)	14,827	45	14,782
Pollution remediation	18,598	14,361	(1,738)	31,221	1,835	29,386
Other liabilities	96,784	1,297	(14,845)	83,236	6,182	77,054
Total Component Units Long-term Liabilities	$ 5,333,903	$ 589,109	$ (1,095,600)	$ 4,827,412	$ 297,045	$ 4,530,367

Certain beginning balances of the component units have been reclassified to conform with the financial statement presentation.

B. Bonds Payable

At June 30, 2011, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities Principal	Primary Government - Governmental Activities Interest	Primary Government - Business Type Activities Principal	Primary Government - Business Type Activities Interest	Component Units Principal	Component Units Interest
2012	$ 121,360	$ 115,176	$ 9,110	$ 14,030	$ 114,029	$ 147,257
2013	146,480	108,679	9,570	13,565	119,073	143,210
2014	128,775	102,261	10,060	13,075	117,943	138,512
2015	138,585	96,050	10,550	12,535	135,832	133,368
2016	137,825	89,536	11,095	11,983	146,026	128,539
2017 - 2021	600,435	349,555	64,390	50,899	670,095	555,329
2022 - 2026	319,855	233,244	82,745	32,360	682,523	398,667
2027 - 2031	81,470	176,641	38,200	12,412	655,075	253,674
2032 - 2036	168,260	131,615	23,900	3,727	504,825	135,084
2037 - 2041		116,156			405,900	49,555
2042 - 2046	371,700	34,847			140,805	17,652
2047 - 2051					76,465	3,818
2052 - 2056	197,006	2,637,174 *			1,077	16
	$ 2,411,751	$ 4,190,934	$ 259,620	$ 164,586	$ 3,769,668	$ 2,104,681

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually.

At June 30, 2011, general obligation bonds authorized by the voters and unissued amounted to $262,000,000. 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.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $84,700,000, ($31,980,000 issued subsequently to June 30, 2011 – see Note 18. Subsequent Events), (2) Economic Development Corporation – Job Creation Guaranty Program - $50,000,000 and (3) Economic Development Corporation – 195 Land Sales - $42,000,000.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2011 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed 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. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and 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. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains “Turbo Maturity” provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2011, TSFC utilized $12,570,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2011 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

Historic Tax Credit Bonds - In FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2011, outstanding bond and note indebtedness totaled $260,227,000.

Revenue bonds of 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, (f) pay costs of issuance and (g) acquire and renovate the Dunkin Donuts Center. The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement 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 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. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA’s Bond Resolutions contains certain restrictive covenants. During fiscal year 2011, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements. Also, RICCA was unable to fund the Renewal and Replacement component of the restrictive covenants for the Rhode Island Convention Center and the Dunkin Donuts Center pursuant to the indentures.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and Community College of Rhode Island

The University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. 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 loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreements provide 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.

R.I. Housing and Mortgage Finance Corporation

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.

R.I. Economic Development Corporation

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.

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain outlying airports to repay $260,945,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $38,157,000 for the year ended June 30, 2011. Principal and interest payments for the year ended June 30, 2011 were approximately $22,476,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including customer facility charges, were $6,138,000 for the year ended June 30, 2011. Interest paid for the year ended June 30, 2011 was approximately $2,418,000. Principal payments commenced on July 1, 2011. The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters.

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC is permitted under the Agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2012. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement), and it is anticipated that repayments will commence in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2011, RIAC had $23,838,000 in borrowings under this agreement.

Other Component Units

Other nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

R.I. Industrial-Recreational Building Authority

The $60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2011 are as follows*:*

Note payable to R.I. Housing and Mortgage Finance Corporation - to provide financing for various affordable housing initiatives	$	3,485
Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2012-2017		9,615
	$	13,100

Both special obligation notes are subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2011 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2011 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.	$	1,613
R.I. Housing and Mortgage Finance Corporation bank notes, 5.275% to 5.70% interest, payable through 2030.		23,610
R.I. Economic Development Corporation (Quonset Development Corporation) monthly payments of principal and interest through FY 2016 bearing interest at 5.00%.		1,322
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015		444
		26,989
Less: current portion		(9,440)
	$	17,549

D. Loans Payable

Discretely Presented Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $334,265,040.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), 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, 2011 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, 2011:

Fiscal Year Ending June 30		COPS
2012	$	30,525
2013		29,465
2014		27,827
2015		27,153
2016		26,696
2017 - 2021		95,385
2022 - 2026		51,287
2027 - 2031		7,448
Total future minimum lease payments		295,786
Amount representing interest		(71,741)
Present value of future minimum lease payments	$	224,045

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, the following bonds outstanding (expressed in thousands) are considered defeased:

		Amount
Primary government:		
General Obligation Bonds	$	131,840
R.I. Convention Center Authority		28,455
Component Units:		
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)		186,755
R.I. Economic Development Corporation		15,220
R.I. Turnpike and Bridge Authority		32,300
R.I. Clean Water Finance Agency		53,410

G. 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, 2011 was $103,000,000, $2,850,675,000 and $1,122,000,000 respectively. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. Short-Term Borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
General Obligation Tax Anticipation Notes	$ 0	$ 350,000	$ 350,000	$ 0
RI Capital Plan Fund	78,648	65,562	144,210	0
Total Short-Term Borrowing	$ 78,648	$ 415,562	$ 494,210	$ 0

All of the borrowings were used to provide short-term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $56,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.20% to 1.94%.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State’s obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State had borrowed $222,352,000 at June 30, 2011 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest on the borrowings was deferred through December 31, 2010; however, interest accrued beginning January 1, 2011 and is payable on October 1 of each year. It is expected that borrowing will continue in fiscal 2012.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal 2012, include adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

K. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits subject to certain limitations and vested sick leave credits that are payable at retirement subject to certain limitations. Payment is calculated at their current rate of pay.

L. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

M. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers that are not expected to be paid in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated Absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged
- Net OPEB Obligation – General Fund
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds
- Other long-term liabilities – General and Intermodal Surface Transportation Funds

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $462,751,000 of restricted net assets, of which $218,505,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Temporary Disability Insurance Program and Other categories on the Statement of Net

Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Governmental Funds – Fund Balances

Governmental fund balance categories are detailed below (expressed in thousands):

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Prepaids	$ 53,353	$	$	$ 53,353
Permanent Fund Principal			174	174
Restricted for:				
Budget Reserve and Cash Stabilization	130,293			130,293
Purposes specified by enabling legislation	66,178			66,178
Debt Service		12,195	71,645	83,840
Capital Projects			138,165	138,165
Temporary Disability Insurance			150,914	150,914
Historic Tax Credit Redemption			30,331	30,331
Transportation		123,115		123,115
Education			1,645	1,645
Other	1,414		241	1,655
Committed to:				
Appropriations Carried Forward by Statute:				
Judiciary	92			92
Legislature	3,842			3,842
Transportation		1,448		1,448
Other	2,022			2,022
Assigned to:				
Subsequent Years Expenditures	8,271			8,271
Other	154	85	199	438
Unassigned:	5,281	(5,043)		238
Totals	$ 270,900	$ 131,800	$ 393,314	$ 796,014

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account ("Reserve") within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2011, 2.60% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 4.20% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, 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 year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts 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 Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,014,617	$ 1,014,528
General Business Taxes:		
Business Corporations	83,692	84,227
Public Utilities Gross Earnings	103,744	102,421
Financial Institutions	2,459	4,358
Insurance Companies	53,941	53,926
Bank Deposits	1,967	1,967
Health Care Provider Assessment	40,761	40,674
Sub-total - General Business Taxes	286,564	287,573
Sales and Use Taxes:		
Sales and Use	813,007	812,578
Motor Vehicle	47,655	47,659
Motor Fuel	1,055	1,177
Cigarettes	134,060	134,048
Alcoholic	11,683	11,683
Sub-total - Sales and Use Taxes	1,007,460	1,007,145
Other Taxes:		
Inheritance and Gift	46,855	46,999
Racing and Athletics	1,325	1,325
Realty Transfer	6,371	6,371
Sub-total - Other Taxes	54,551	54,695
Total - General Fund	2,363,192	2,363,941
Intermodal Surface Transportation Fund		
Gasoline	136,811	136,811
Other Governmental Funds	164,417	164,417
Total Taxes	$ 2,664,420	$ 2,665,169

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2011 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 44,013	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,742	Administrative cost reimbursement
Historic Tax Credit	14,190	Reimbursement for tax credits claimed
Bond Capital	3,437	Interest earnings transfer
Business-Type Activities		
Lottery	354,861	Net income transfer
Employment Security	6,408	Administrative cost reimbursement
Internal Service	3	Charges for Information Technology Services
Intermodal Surface Transportation		
Bond Capital	32,150	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,052	Debt service reserve
RI Capital Plan		
General	84,645	Transfer statutory excess in budget reserve
RI Public Rail Corporation		
Intermodal Surface Transportation	1,728	Operating assistance
Total Governmental Activities	545,229	
Business-Type Activities		
Convention Center		
General	23,130	Debt service
Employment Security		
General	4,699	Administrative cost reimbursement
Assessed Fringe Benefits	2,254	Reimbursement for State employees' unemployment compensation
Total operating transfers primary government	$ 575,312	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,616,000 for the fiscal year ended June 30, 2011.

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.

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, 2011:

Fiscal Year Ending June 30	
2012	$ 10,285
2013	8,423
2014	8,223
2015	8,084
2016	6,058
2017 - 2021	5,878
Total	$ 46,951

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2011 are listed below (expressed in thousands):

Major funds		
General	$	10,799
IST		458,216
Total major funds		469,015
Other governmental funds		6,486
Total encumbrances outstanding	$	475,501

The primary government is committed at June 30, 2011 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt proceeds and federal grants. Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2011 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. 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 through fiscal year 2021 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. In the year ended June 30, 2011, $3,560,000 was paid to the developer.

The RIEDC has issued 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 paid $2,533,000 of the debt on the related economic development revenue bonds in fiscal year 2011. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it 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 it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

Video Lottery Facilities – UTGR, Inc.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The First Amendment to the Master Contract provides for a promotional points program of up to 4% of the facility's prior year net terminal income. The general laws require a base of $750,000 to be expended before the previously authorized 4% of prior year net terminal income. The First Amendment requires the Lottery to reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.08% for fiscal 2011). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery) and is contingent on the State receiving net terminal income from UTGR at least equal to fiscal year 2009 amounts. These amounts were pro-rated on a partial year basis for fiscal year 2011.

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law.

The First Amendment also provides for a promotional points program of up to 4% of the facility's prior year net terminal income and requires the Lottery to reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (61.69% for fiscal 2011). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery). These amounts are pro-rated on a partial year basis for fiscal year 2011. Additionally, the First Amendment provides an allocation of video lottery net terminal income to Newport Grand equal in percentage to that of UTGR.

R. I. Public Rail Corporation

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of $7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

Discretely Presented Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $6,836,000, which are expected to be funded from current available resources and future operations. As of June 30, 2011, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $20,853,000.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into five distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV is still accepting waste, portions of Phase IV have been capped, with final capping expected during fiscal year 2012. In 2005, the Corporation began landfilling in Phase V.

A liability for closure and post-closure care of $57,211,199 as of June 30, 2011 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2011
Phase I	$ 10,124,584
Phase II and III	5,504,366
Phase IV	10,285,941
Phase V	31,296,308
	$ 57,211,199

The Corporation has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2011, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense for Phase IV, and the estimated percent of landfill capacity used for Phase IV, are $484,678 and 95.5%, respectively. The corresponding amounts for Phase V are $12,678,178 and 71.2%, respectively. Estimated remaining years for accepting waste is less than one year for Phase IV and 3.5 years for Phase V.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets held in trust in the accompanying statements of net assets as of June 30, 2011 is $41,075,529 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

The pollution remediation obligation for the year ended June 30, 2011 is as follows:

Balance, June 30, 2010	Additions	Reductions	Balance, June 30, 2011	Current Portion
$ 18,599,143	$ 14,361,079	$ (1,737,815)	$ 31,222,407	$ 1,834,895

Superfund site:

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The balance of the trust fund totaled $41,981,365 as of June 30, 2011 and has been included in restricted assets held in trust in the accompanying statement of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately $30,591,000 as of June 30, 2011.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately $632,000 as of June 30, 2011.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the Corporation. As of June 30, 2011 the escrow account totaled approximately $156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $15,193,207 at June 30, 2011.

R.I. Industrial-Recreational Building Authority

At June 30, 2011, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2011 are $20,779,093.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Specific litigation matters are discussed below.

Pension Reform Litigation

On May 12, 2010, unions, which represent State employees and teachers, filed a lawsuit against the State of Rhode Island challenging legislative changes made in 2009 to pension benefit provisions within the ERS plan for State employees and teachers. The lawsuit was later amended to include the 2010 legislative changes. Various parties have been named as defendants in the lawsuit including the System and the Board of Directors. The State is vigorously contesting the lawsuit.

The State filed a Motion for Summary Judgment which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the court during the hearing would concern whether the statute created a contract between the State and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The Defendants believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the defendants' petition and the case will proceed in the Superior Court.

Management believes that the comprehensive pension reform legislation enacted on November 18, 2011 will likely prompt similar legal challenges from unions representing State employees and teachers.

Management cannot estimate the likelihood of loss to the State or the System, if any. If challenges to the statutory changes are successful, future contribution rates for the plans and the unfunded actuarial accrued liability could be materially impacted.

Transportation Related Litigation

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and construction of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Raito's claims total approximately $11 million. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

In late 2009, Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several State employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $15,000,000. The State has denied the claim in its totality and will contest all damages.

Other

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six school districts that operate regional vocational technical centers in the State have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. The Cranston School Department has filed both an Administrative Procedures Act appeal and a Petition for Writ of Mandamus in the Superior Court on the basis of these claims. The mandamus action has been appealed by petitioning the Supreme Court for the issuance of a Writ of Certiorari, which was granted. The matter is scheduled for a Mediation Conference. If a settlement does not result, full briefs will be due within 40 days without extension. The aggregate sums demanded by the school districts is approximately $22 million.

With respect to other 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.

The Securities and Exchange Commission has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement (“MSA”), for any year in which the Participating Manufacturers (“PMs”) suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment (“NPM Adjustment” or “Adjustment”) that would permit the PMs to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a “significant factor” contributing to the market share loss (“Significant Factor Proceeding”), and (2) the State is found as not having diligently enforced its escrow statute.

For calendar years 2003, 2004, 2005 and 2006, there have been Significant Factor Proceedings in which the firm found in favor of the PMs. Settling States and the PMs are engaged in arbitration proceedings in connection with the issue of Diligent Enforcement for 2003 (Adjustment reported at $1.2 billion). Rhode Island’s Diligent Enforcement for 2003 is no longer being challenged; however, many uncertainties remain concerning the resolution of the dispute regarding the 2003 NPM Adjustment. The resolution of the substance of such dispute could take years. In regards to future potential NPM Adjustments, such Adjustments could be as large as or exceed that of calendar year 2003. There will not be a Significant Factor Proceeding for 2007, 2008 and 2009. As for the Significant Factor proceedings for 2010, 2011 and 2012, no decision has been made.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. Such 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. 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 ruling, the Corporation may not have adequate financial resources to service its debt obligations.

Many of the tobacco manufacturers participating in the MSA have either withheld all or portions of their payments due or have remitted their payments to an escrow account, disputing the calculations of amounts due under the MSA (collectively “Disputed Payments”). These manufacturers assert that the calculations of the amounts due failed to recognize NPM Adjustments. The Corporation’s share of these Disputed Payments is approximately $22 million. However, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of Disputed Payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking action, provided for in the MSA, to arrive at a resolution of such matters.

On January 31, 2006 the Corporation received a subpoena requesting the production of documents and information relative to the SEC’s investigation of “Certain GIC Brokers.” The Corporation responded to this request on a timely basis. On April 17, 2008, the Corporation received a subpoena from the US Department of Justice for the production of documents. The Corporation responded to this request on a timely basis and has not received any further notices or communications from the Department of Justice regarding this matter.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's video lottery operations could be adversely impacted by Massachusetts legislation enacted in November 2011 to allow three casinos and one slot parlor in that state. If successful, and depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease. The Rhode Island General Assembly enacted legislation that calls for analysis of competitive casino gaming operations and a statewide referendum (November 2012) to allow casino style gaming at Twin River. Subsequently, the constitutionality of that legislation is being challenged by the Narragansett Indian Tribe. The State does not believe that the Tribe's lawsuit seeking a declaratory judgment will be successful.

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.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2010 was issued in March 2011. That report identified approximately $14.9 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2011 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a 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, 2011, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $235,172,235 and $112,054,089 respectively, in "moral obligation" bonds outstanding.

In November 2010 the RIEDC issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, and are to provide funding for relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. The payments of the bonds are secured, in part, by the guaranty of the RIEDC. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RIEDC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall, and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

Component Units

R.I. Higher Education Assistance Authority (RIHEAA) and R.I. Student Loan Authority (RISLA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act makes sweeping changes in student financial assistance programs, including a provision which eliminates loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, all new guaranteed student loans will be originated under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constitutes its single largest activity, and approximately 75% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority's ongoing operations.

Management continues to evaluate the impact of the Act. RISLA will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. RIHEAA believes it is difficult to predict the time period over which such services would be required, and to what extent these responsibilities would constitute a substantive activity for the Authority. RIHEAA currently anticipates that the period would be in the range of three to five years.

Due to the fact that all federally guaranteed student loans will be originated under the Federal Direct Loan Program, RISLA will no longer originate new federal Stafford or Plus loans. RISLA will continue to hold and administer its $705 million portfolio of federally guaranteed Stafford, Plus, and Consolidation loans. SAFRA may provide not for profit state based organizations like RISLA the opportunity to service Direct Student Loans on behalf of the US Department of Education. RISLA's management is analyzing the possibility of Direct Loan servicing.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2011, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in November 2011, up to a maximum of $15,000,000 under a revolving loan agreement expiring in January 2012 and up to a maximum of $20,000,000 under a revolving loan agreement expiring in May 2013.

The Corporation is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2011 is $51,906,673.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), 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), which are 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 ERS 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 and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS 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, 50 Service Ave., Warwick, RI 02886.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS 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 wages, subject to required contributions, are earned for the performance of duties for covered employment. 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. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

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.

Short-term investments are generally carried at cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The ERS also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the ERS investments.

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 8.2% and 3.3%, respectively, of the total reported fair value of all ERSRI investments at June 30, 2011. Of the underlying holdings within private equity investments, approximately 11% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2011 and related information for each plan is listed below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.78%	24.58%	16.19%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.32% and 7.76%		
Annual pension cost	$196,847	$3,787	$1,298
Contributions made - state employees	$126,561	$3,787	$1,298
Contributions made - teachers	$70,286		
Actuarial valuation date	June 30, 2008, restated	June 30, 2008	June 30, 2008, restated
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	21 years	21 years	21 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schedule A Members eligible at 9/30/09 - 3.0% compounded Members not eligible at 9/30/09 - 2.5% compounded Schedule B members 2.5% compounded	$1,500 per annum	3.0%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/09	199,898	100%	0
	6/30/10	192,091	100%	0
	6/30/11	196,847	100%	0
State Police Retirement Benefits Trust	6/30/09	3,341	100%	0
	6/30/10	3,591	100%	0
	6/30/11	3,787	100%	0
Judicial Retirement Benefits Trust	6/30/09	1,700	100%	0
	6/30/10	1,181	100%	0
	6/30/11	1,298	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the fiscal year ended June 30, 2010 (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011), the most recent 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)
ERS						
State Employees	$ 2,532,090,798	$ 4,234,045,007	$ 1,701,954,209	59.80%	$ 630,246,973	270.00%
Teachers	3,873,118,262	6,265,273,231	2,392,154,969	61.80%	989,236,951	241.80%
SPRBT	65,760,284	73,048,680	7,288,396	90.00%	19,715,070	37.00%
JRBT	38,074,287	46,641,701	8,567,414	81.60%	7,461,120	114.80%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2010 actuarial valuation (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010
Actuarial Cost Method	Entry Age Normal	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	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	25 years	25 years	25 years	25 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures.

The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

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 under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $15,573,000 during the year ended June 30, 2011.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2011 totaled $7,339,827. At January 1, 2011, the most recent valuation date, the total actuarial accrued liability was $102,331,744 and the actuarial value of assets was $67,178,156. The Authority contributed 100.00% of its annual pension cost for fiscal year 2011 and had a net pension obligation of $1,755,708 at June 30, 2011.

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 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for other post employment benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation.
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Governors for Higher Education (BOG)

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents.

Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds. The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

A summary of the principal provisions of the plans follow:

	State Employees and Teachers	Judicial	State Police	Legislators	BOG Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOG Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible for Medicare supplement.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits which are discussed below.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until age 65. At 65 must enroll in Medicare supplement.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

In fiscal year 2011 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2011, the State and other participating employers paid $53,044,000 into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

	State Employees	Teachers	Judicial	State Police	Legislators	BOG
Date of Actuarial Valuation	06/30/07	06/30/07	06/30/07	06/30/07	06/30/07	06/30/09
Annual required contribution as a percent of payroll	6.74%	N/A	9.86%	25.67%	95.49%	2.69%
Annual required contribution	$ 41,120	$ 2,333	$ 986	$ 4,216	$ 1,520	$ 2,869
Plus: Interest on net OPEB obligation at beginning of year	0	NA	141	411	106	0
Less: Adjustment to ARC	0	NA	113	332	85	0
Annual OPEB cost	41,120	2,333	1,014	4,295	1,541	2,869
Participating State and/or other employer contributions	41,120	2,333	986	4,215	1,520	2,869
Increase in OPEB obligation	0	0	28	80	21	0
Net OPEB obligation at beginning of year	0	0	2,811	8,222	2,095	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,839	$ 8,302	$ 2,116	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2009	$ 34,683	96.17%	$ -
	2010	45,852	73.07%	-
	2011	41,120	100.00%	-
Teachers	2009	2,180	100.00%	-
	2010	2,345	100.00%	-
	2011	2,333	100.00%	-
Judicial	2009	1,109	15.34%	1,853
	2010	1,131	15.33%	2,811
	2011	1,014	97.23%	2,839
State Police	2009	4,609	43.55%	5,850
	2010	4,640	48.88%	8,222
	2011	4,295	98.13%	8,302
Legislators	2009	298	48.40%	378
	2010	1,861	7.72%	2,095
	2011	1,541	98.62%	2,116
BOG	2009	1,572	77.00%	-
	2010	1,665	53.20%	-
	2011	2,869	100.00%	-

The Net OPEB Obligation for the State Employees and BOG plans has been restated for 2009 and 2010 due to the change in the plans' type from an agent multi-employer to cost sharing multi-employer plan.

The table below displays the funded status of each plan at June 30, 2009, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	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)
State Employees	$ 0	$ 673,640	$ 673,640	0.0%	$ 574,569	117.2%
Teachers	0	13,529	13,529	0.0%	n/a	n/a
Judicial	0	8,665	8,665	0.0%	9,395	92.2%
State Police	0	67,079	67,079	0.0%	16,725	401.1%
Legislators	0	11,752	11,752	0.0%	1,612	729.0%
BOG	0	47,704	47,704	0.0%	112,884	42.3%

Covered payroll and the UAAL as a percentage of covered payroll is not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2011 were determined based on the June 30, 2007 valuations for all plans except for the Board of Governors plan, which was based on the June 30, 2009 valuation.

As of the June 30, 2007 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2007 is 29 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2007 valuation the actuarial assumptions include a 3.566% discount rate, a health care cost trend assumption of 10% progressively declining to 4.5% after 7 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes recently enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2009. The actuarial methods and assumptions used in those valuations are summarized in the following table.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2009 Valuations

	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	9.00% to 4.50%	13.25% to 4.50%	4.50%	12.50% to 4.50%	9.00% to 4.50%	9.00% to 4.50%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 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. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, 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 State's financial statements.

Note 16. 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. During Fiscal 2011, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2011 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	$ 19,855	$ 183,163	$ 186,947	$ 16,071

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.

Note 17. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 35,879	$ 412	$ 36,291	$ (36,342)	$ (51)
Loans to other funds	15,937		15,937	(15,937)	
Total assets	$ 51,816	$ 412	$ 52,228	$ (52,279)	$ (51)
Liabilities					
Due to other funds	$ 34,439	$ 1,903	$ 36,342	$ (36,342)	$
Loans from other funds	13,227	2,710	15,937	(15,937)	
Total liabilities	$ 47,666	$ 4,613	$ 52,279	$ (52,279)	$
Program revenue					
General government	$	$ 263,215	$ 263,215	$ (263,215)	
Public safety		10,170	10,170	(10,170)	
Expenses					
General government		261,411	261,411	(261,411)	
Public safety		11,974	11,974	(11,974)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 545,229	$	$ 545,229	$ (214,043)	$ 331,186
Operating transfers out	(211,789)	(2,254)	(214,043)	214,043	
Operating transfers out considered other contributions by OPEB Trusts		(5,104)	(5,104)		(5,104)
Net transfers	$ 333,440	$ (7,358)	$ 326,082	$	$ 326,082

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 3,118	$	$ 3,118	$ (3,067)	$ 51
Total assets	$ 3,118	$	$ 3,118	$ (3,067)	$ 51
Liabilities					
Due to other funds	$ 3,067	$	$ 3,067	$ (3,067)	$
Total liabilities	$ 3,067	$	$ 3,067	$ (3,067)	$
Transfers					
Operating transfers in	$ 30,083	$	$ 30,083	$ (30,083)	$
Operating transfers out	(361,269)		(361,269)	30,083	(331,186)
Net transfers	$ (331,186)	$	$ (331,186)	$	$ (331,186)

B. Related Party Transactions

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

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, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC 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. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2011 were as follows:

Guaranteed loans outstanding at June 30, 2011	$	579,819,000
Guarantee claims paid during the year		16,458,000

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

The Narragansett Bay Commission has approximately $334,000,000 of loans payable to the R.I. Clean Water Finance Agency.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.4 percent of estimated general revenues. The remaining 2.6 percent is contributed to the Budget Reserve Account until such account equals 4.2 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

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.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 7,320	Operating assistance
R.I. Economic Development Corporation	11,533	Operating and capital assistance
University of Rhode Island	56,859	Operating assistance
Rhode Island College	37,984	Operating assistance
Community College of Rhode Island	43,441	Operating assistance
R.I. Public Transit Authority	5,633	Operating assistance
IST		
R.I. Public Transit Authority	41,076	Operating assistance
Bond Capital		
University of Rhode Island	21,216	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	8,025	Construction, improvement or purchase of assets
Total Governmental Activities	$ 233,087	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2011:

- Central Utilities ($253,000)
- State Telecommunications ($233,000)
- Records Center ($104,000)
- Capitol Police ($10,000)

The deficits will be eliminated through charges for services in fiscal year 2012.

F. Restatements – Net Assets and Fund Balances

		Governmental Activities	Discretely Presented Component Units	Governmental Funds (g)
Balances previously reported on June 30, 2010				
	Net assets	$ 972,714	$ 2,432,051	
	Fund balance			$ 883,711
Restatement to:				
(a)	Record federal reimbursement for expenditures incurred in prior years	5,504		5,504
(b)	Record disallowances of prior year federal program expenditures	(4,899)		(4,899)
(c)	Correct recording of capital assets owned by the State	3,233	(3,233)	
(d)	Change in reporting entity - Central Falls School District		(391)	
(e)	Expense previously recorded construction in progress	(16,483)		
(f)	Record depreciation on infrastructure assets placed into service in fiscal 2010	(1,673)		
	Other	(340)	(94)	
June 30, 2010 net assets/fund balance as restated		$ 958,056	$ 2,428,333	$ 884,316

(a) *Record federal reimbursement for expenditures incurred in prior years* - The State successfully submitted documentation supporting certain administrative costs associated with its Child Support Enforcement Program that were accepted by the U.S. Department of Health and Human Services' (DHHS) Division of Cost Allocation.

(b) *Record disallowances of prior year federal program expenditures* – The Centers for Medicare & Medicaid Services disallowed prior year transportation expenditures reimbursed through the State's Medicaid program based on a 2005 audit by the DHHS Office of Inspector General.

(c) *Correct recording of capital assets owned by the State* – The State recorded certain capital assets that were previously reported by the RI Public Telecommunications Authority, a discretely presented component unit. The underlying buildings and land were deemed to no longer qualify as capital assets of the component unit upon the expiration of the bargain purchase option stipulated in the entity's lease agreement with the State.

(d) *Change in reporting entity – Central Falls School District* - More fully described in Note 1(T).

(e) *Expense previously recorded construction in progress* – The State restated net assets for certain capital projects that were previously capitalized upon determination that they would not meet the State's capitalization threshold upon completion.

(f) *Record depreciation on infrastructure assets placed into service in fiscal 2010* – The State identified infrastructure assets substantially completed prior to June 30, 2010 that were not properly reflected as being placed into service at that date.

(g) *The State also restated fund balance between certain governmental funds to conform to the State's current year presentation. These restatements had no net effect on total fund balance reported for governmental funds in the State's financial statements.*

Note 18. Subsequent Events

Primary Government

Subsequent Events Related to Debt

In July 2011 the State issued $31,980,000 of Lease Participation Certificates. The proceeds will be used for a number of energy conservation projects at State facilities. The Certificates mature in 2012 through 2026.

In August 2011 the State issued $168,815,000 in General Obligation Bonds. The Series A bonds, in the amount of $145,035,000, mature in 2012 through 2031 and will be used for a variety of purposes including higher education facilities and transportation infrastructure projects. The Series B bonds, in the amount of $23,780,000, refunded previous general obligation issues.

The State sold $200 million of General Obligation Tax Anticipation Notes in October 2011. The notes bear interest at an effective interest rate of 0.3% and mature on June 29, 2012.

Subsequent Events Related to Pension Reform

The Rhode Island General Assembly enacted comprehensive pension reform legislation in November 2011. The objectives of the legislation include improving the funded status of the plans within the System and stabilizing the projected increase in required employer contributions.

The pension reform measures include:

- For General State and Municipal Employees and Teachers: changing the structure of the retirement program to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan.

- Changing the automatic cost of living adjustments (COLA) from a stated amount or CPI-based COLA to a formula contingent on the actual investment performance over time.

- Suspending COLA when the funded ratio is lower than 80%. The ERS, Judicial and State Police Plans will be aggregated to determine if the 80% funded ratio has been met. When the COLA is suspended based on funded status, potential periodic COLA are provided every five years.

- Reamortizing the unfunded actuarial accrued liability to 25 years from the current 19 year schedule.

- Preserving accumulated benefits earned by members (service credit multiplier) as of June 30, 2012.

- Aligning retirement eligibility ages to those for Social Security with a phased approach for those members who are vested (five years) as of June 30, 2012.

Changes in member benefit provision are effective on July 1, 2012.

Subsequent Events Related to Municipalities

The City of Central Falls, which was in State receivership, filed for federal bankruptcy protection in August 2011. On September 22, 2011, the bankruptcy counsel for the receiver filed a plan of debt adjustment and disclosure statement with the Court. The receiver is seeking to negotiate agreements with major affected parties. It is not known whether any consensus can be reached, how long the process will take, what the outcome will be or what impact the bankruptcy will have on the State as a whole.

A State fiscal overseer was appointed for the City of East Providence in November 2011, consistent with powers granted to the Department of Revenue by the RI General Laws. Subsequently, a budget commission was appointed in December 2011.

Subsequent Events - Other

In July 2011 the Governor signed into law an Act authorizing the sale of surplus property (real estate) created by the relocation of Interstate 195. The Act also creates the I-195 redevelopment district commission (the “Redevelopment Commission”). The seven-member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other State and federal Transportation funds would be made available, which would impact the progress of other contemplated projects.

Legislation enacted during the 2011 General Assembly session created the Ocean State Investment Pool (Pool) which allows eligible governmental agencies to participate with the State in investing their liquid assets. The State Investment Commission has selected a vendor to administer and invest assets within the Pool. In subsequent fiscal years, the Pool will be reported as a fiduciary fund within the State's financial statements.

Subsequent to June 30, 2011, Standard & Poors Investors Service downgraded the rating assigned to direct obligations of the United States government from AAA to AA+. Direct United States government obligations held within the ERS and OPEB systems, were not considered to be exposed to credit risk based on ratings assigned as of that date.

Component Units

During September 2011, the Rhode Island Industrial-Recreational Building Authority (RIIRBA) was informed that the Obligor on a bond issue insured for $4.8 million as of June 30, 2011 had exceeded the authorized limit for its line of credit with its lender. As a result, the Obligor is in default under the terms of its agreement with RIIRBA. RIIRBA has approved the temporary subordination of collateral securing the debt to allow the lender to restructure the terms of its facility.

Subsequent to June 30, 2011, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued and redeemed the following debt:

- On July 1, 2011 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $26,865,000.

- On September 29, 2011 RIHMFC issued Single Family Housing Bonds in the amount of $35,000,000.

- On September 29, 2011 RIHMFC issued Multi Family Housing Bonds in the amount of $19,140,000.

- On October 1, 2011 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,365,000 and Home Funding Bonds in the amount of $1,810,000.

- On December 1, 2011 RIHMFC instructed its trustees to redeem the Multi Family Housing Bonds in the amount of $3,420,000.

Subsequent to June 30, 2011 the Town of Johnston filed a Complaint against the Rhode Island Resource Recovery Corporation (RIRRC) alleging that odors emanating from RIRRC's Central Landfill located at 65 Shun Pike, in Johnston, Rhode Island have given rise to a public nuisance. Due to the recent filing of the Complaint, and the limited information currently available, management is unable to categorize the possibility of a future loss, if any, nor can management estimate the range of any possible loss with any reasonable accuracy. RIRRC has notified its pollution insurance carrier of a claim for loss under the policy and is awaiting notification from the carrier with respect to the extent of coverage available under said policy.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 937,900	$ 1,003,600	$ 1,021,339	$ 17,739
General Business Taxes:				
Business Corporations	119,000	95,100	84,510	(10,590)
Public Utilities Gross Earnings	98,000	104,200	103,744	(456)
Financial Institutions	1,000	1,000	2,459	1,459
Insurance Companies	101,250	68,000	60,590	(7,410)
Bank Deposits	2,200	2,000	1,967	(33)
Health Care Provider Assessment	39,800	40,500	40,761	261
Sales and Use Taxes:				
Sales and Use	787,000	810,400	813,007	2,607
Motor Vehicle	48,500	51,500	47,655	(3,845)
Motor Fuel	1,000	1,100	1,055	(45)
Cigarettes	134,000	136,900	134,060	(2,840)
Alcohol	11,700	11,900	11,683	(217)
Other Taxes:				
Inheritance and Gift	27,600	49,700	46,855	(2,845)
Racing and Athletics	1,300	1,300	1,325	25
Realty Transfer Tax	6,900	6,400	6,371	(29)
Total Taxes *(1)*	2,317,150	2,383,600	2,377,381	(6,219)
Departmental Revenue	345,227	334,116	332,715	(1,401)
Total Taxes and Departmental Revenue	2,662,377	2,717,716	2,710,096	(7,620)
Other Sources:				
Other Miscellaneous	5,331	13,130	11,116	(2,014)
Lottery	346,939	353,037	354,861	1,824
Unclaimed Property	6,000	7,100	7,640	540
Total Other Sources	358,270	373,267	373,617	350
Total General Revenues	3,020,647	3,090,983	3,083,713	(7,270)
Federal Revenues	2,433,330	2,533,723	2,314,100	(219,623)
Restricted Revenues	178,105	179,307	174,192	(5,115)
Other Revenues	78,979	72,777	65,933	(6,844)
Total Revenues *(2)*	5,711,061	5,876,790	5,637,938	(238,852)
Expenditures *(4):*				
General government	711,180	751,906	670,655	81,251
Human services	3,106,097	3,091,597	3,009,098	82,499
Education	1,305,953	1,350,125	1,309,591	40,534
Public safety	414,836	458,578	428,687	29,891
Natural resources	94,466	107,805	71,812	35,993
Total Expenditures *(2)*	5,632,532	5,760,011	5,489,843	$ 270,168
Transfer of Excess Budget Reserve to RI Capital Fund			62,645	
Total Expenditures	$ 5,632,532	$ 5,760,011	5,552,488	
Change in Fund Balance			85,450	
Fund balance - beginning (as restated)			185,450	
Fund balance - ending			$ 270,900	

(continued)

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, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 2,942,119	$ 2,974,204	$ 2,956,153	$ 18,051
Federal Funds	2,433,329	2,533,723	2,315,558	218,165
Restricted Receipts	178,105	179,307	154,833	24,474
Other Funds	78,979	72,777	63,299	9,478
	$ 5,632,532	$ 5,760,011	$ 5,489,843	$ 270,168

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 5,876,790	
Total Expenditures - Final Budget	5,760,011	
Final Budget - Projected Surplus (3)		$ 116,779
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (238,852)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	270,168	
Surplus resulting from operations compared to final budget		$ 31,316
Total General Fund Surplus - Fiscal Year Ended June 30, 2011		$ 148,095
Less:Transfer of Excess Budget Reserve to RICAP Fund		(62,645)
Net Change in General Fund - Fund Balance		$ 85,450
Fund Balance, Beginning (as restated)		185,450
Fund Balance, Ending		$ 270,900

Notes:

(1) Transfers from the Historical Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.4% of estimated general revenue for the fiscal year ending June 30, 2011.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 160,553
Education	22,042
	$ 182,595

(continued)

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, 2011
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements	Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2012		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2012	
Non-spendable	$ 53,353	$		$ 53,353	*(a)*
Restricted	197,885	197,885			
Committed	5,956	5,956			
Assigned	8,425	2,830	*(b)*	5,595	*(c)*
Unassigned	5,281			5,281	*(d)*
Total Fund Balance	$ 270,900	$ 206,671		$ 64,229	

(a) Prepaid expenses are considered nonspendable for financial reporting purposes but are a budgetary resource in the subsequent year.

(b) Assigned fund balance not available for appropriation in fiscal 2012 includes (1) centralized cost allocation surplus that requires offset through fiscal 2012 centralized charges and (2) general revenue appropriations carried forward by the Governor.

(c) Assigned fund balance available for appropriation in fiscal 2012 includes fiscal 2011 ending surplus amounts appropriated as resources in the 2012 enacted budget, and fund balance amounts encumbered at June 30, 2011.

(d) Remaining fund balance available for appropriation.

(concluded)

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, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 136,853	$ 137,363	$ 136,811	$ (552)
Departmental restricted revenue	1,000	1,000	371	(629)
Federal grants	318,808	347,775	227,235	(120,540)
Other revenues	13,732	2,600	2,317	(283)
Total revenues	470,393	488,738	366,734	(122,004)
Other financing sources:				
Operating transfers in			32,150	32,150
Total revenues and other financing sources	470,393	488,738	398,884	(89,854)
Expenditures:				
Central Management				
Gasoline Tax	1,305	695	781	(86)
Federal Funds	14,118	12,437	4,059	8,378
Total - Central Management	15,423	13,132	4,840	8,292
Management and Budget				
Gasoline Tax	1,653	705	425	280
Total - Management and Budget	1,653	705	425	280
Infrastructure - Engineering				
Gasoline Tax	51,869	51,857	53,109	(1,252)
State Infrastructure Bank	1,400			
Land Sale Revenue	18,206	2,000	1,368	632
Highway Logo Program	100			
Federal Funds	304,690	335,338	225,941	109,397
Restricted Receipts	1,000	1,000	188	812
Subtotal - Infrastructure - Engineering	377,265	390,195	280,606	109,589
State Match - FHWA			35,650	(35,650)
Total - Infrastructure - Engineering	377,265	390,195	316,256	73,939
Infrastructure - Maintenance				
Gasoline Tax	36,864	45,244	44,557	687
Outdoor Advertising	300	525		525
Radio System Upgrade	(6,304)			
Nonland Surplus	30	75		75
Total - Infrastructure - Maintenance	30,890	45,844	44,557	1,287
Total Expenditures	425,231	449,876	366,078	83,798
Other financing uses:				
Transfers to other funds				
Gas tax			39,857	
Other			15	
Total expenditures and other financing uses			405,950	
Net change in fund balance			(7,066)	
Fund balance - beginning			38,994	
Fund balance - ending (excluding GARVEE)			$ 31,928	

For financial statement presentation the GARVEE fund was merged into the IST fund. Only the IST fund is budgeted.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2011
(Expressed in Thousands)

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)
06/30/2010	**	$ 6,405,209	$ 10,499,318	$ 4,094,109	61.0%	$ 1,619,484	252.8%
06/30/2009		6,655,012	11,383,207	4,728,195	58.5%	1,593,336	296.7%
06/30/2008	*	6,745,323	10,963,521	4,218,198	61.5%	1,573,398	268.1%

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)
06/30/2010	**	$ 65,760	$ 73,049	$ 7,288	90.0%	$ 19,715	37.0%
06/30/2009		60,232	75,480	15,248	79.8%	17,096	89.2%
06/30/2008		54,927	69,030	14,102	79.6%	16,699	84.5%

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)
06/30/2010	**	$ 38,074	$ 46,642	$ 8,567	81.6%	$ 7,461	114.8%
06/30/2009		36,839	41,738	4,899	88.3%	6,843	71.6%
06/30/2008	*	34,670	38,116	3,445	91.0%	6,602	52.2%

* Restated
** Restated to reflect pension reform legislation enacted on November 18, 2011

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2011
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 673,640	$ 673,640	0%	$ 574,569	117.2%
06/30/2007	0	679,538	679,538	0%	626,145	108.5%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 13,529	$ 13,529	0%	NA	NA
06/30/2007	0	10,243	10,243	0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 8,665	$ 8,665	0%	$ 9,395	92.2%
06/30/2007	0	14,024	14,024	0%	9,888	141.8%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 67,079	$ 67,079	0%	$ 16,725	401.1%
06/30/2007	0	54,620	54,620	0%	15,977	341.9%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 11,752	$ 11,752	0%	$ 1,612	729.0%
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%

Board of Governors for Higher Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 47,704	$ 47,704	0%	$ 112,884	42.3%
06/30/2007	0	57,881	57,881	0%	110,092	52.6%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

A more detailed budgetary comparison schedule for the general fund is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress - Pensions

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2010 (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011), follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010
Actuarial Cost Method	Entry Age Normal	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	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	25 years	25 years	25 years	25 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

2. Schedules of Funding Progress

Changes affecting the June 30, 2010 actuarial valuation** (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)**:

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures.

The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Changes affecting the June 30, 2009 actuarial valuation:

The June 30, 2009 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010.

The changes enacted as a result of Article 16 of Chapter 23 of the 2010 Public Laws governing benefit provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2010 and June 30, 2011.

Changes affecting the June 30, 2008 actuarial valuation:

The June 30, 2008 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of H5983Aaa, Article 7, Substitute A to the laws governing benefits for state employees and teachers not eligible to retire by September 30, 2009 and judges appointed after July 1, 2009.

The changes enacted as a result of Article 7 Substitute A to the laws governing benefits provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2009, follows:

Summary of Actuarial Methods and Assumptions as of June 30, 2009 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	9.00% to 4.50%	13.25% to 4.50%	4.50%	12.50% to 4.50%	9.00% to 4.50%	9.00% to 4.50%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

2. Schedules of Funding Progress

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Governors plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

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 a population increase of 2.5 percent between 1997 and 2011. The U.S. Census Bureau estimated that Rhode Island's population decreased by 0.1 percent in 2011 as compared to 2010. The 2011 United States census estimate for Rhode Island was 1,051,302 or 0.6 percent less than the 1,058,051 counted in 2001. In contrast, the total United States population is expected to experience a population increase of 9.3 percent between 2001 and 2011.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1996 to 2000 period. Rhode Island per capita personal income in 2011 was $43,992 versus U.S. per capita personal income of $41,663. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2010 period Rhode Island's average poverty rate was 11.8 percent versus the U.S. average poverty rate of 13.2 percent.

Employment. According to the U.S. Department of Labor Bureau of Labor Statistics, total Rhode Island nonfarm employment fell at a rate of 4.4 percent in 2009, 0.4 percent in 2010 but increased by 0.5 percent in 2011. The average annual growth rate for Rhode Island nonfarm employment for the 1997 to 2011 period was 0.3 percent.

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 30.3 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce Census Bureau (2006 - 2010 American Community Survey 5-Year Estimates). In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1993 - 1994 academic year. For 2008 - 2009 Rhode Island spent 44.4 percent more per pupil than the national average.

Population Characteristics

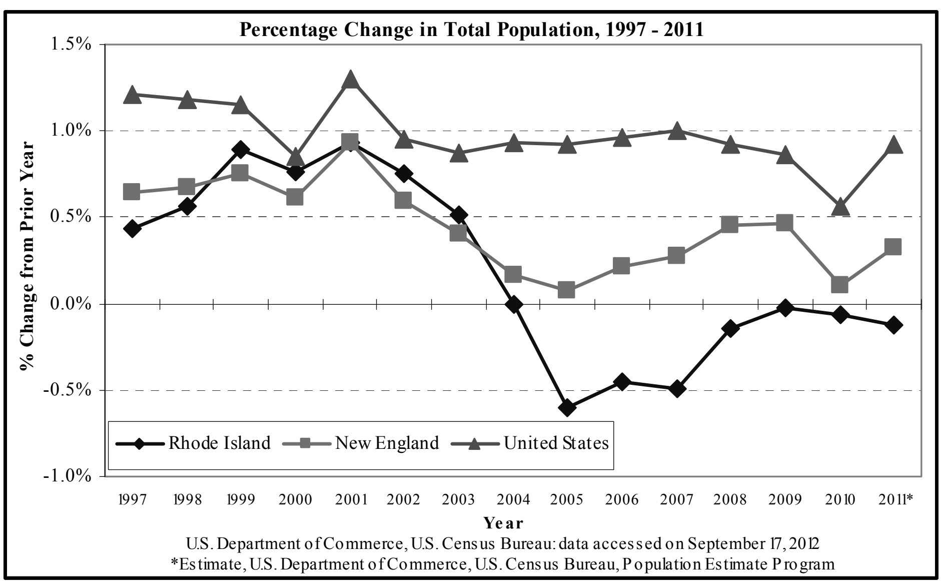
Between 2001 and 2011 Rhode Island's population decreased by 0.6 percent, compared to a 3.1 percent increase for the New England region, and a 9.3 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1997 to 1998 lagged that of the New England region. The growth rate of Rhode Island's population was 0.6 percent for that period compared to New England's growth rate of 0.7 percent. From 1999 through 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.7 percent for New England as a whole. The 2010 U.S. Census indicates that Rhode Island's population grew at a rate -0.1 percent from 2009, which is again lower than that of New England's growth rate of 0.1 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 2001 to 2011 period, the United States' population average growth rate was 0.9 percent. The 2011 estimated population for Rhode Island continued on a downward trend and is estimated to have decreased by 0.1 percent. New England and the United States 2011estimated population growth rates are 0.3 percent and 0.9 percent respectively.

Population, 1997 - 2011
(in thousands)

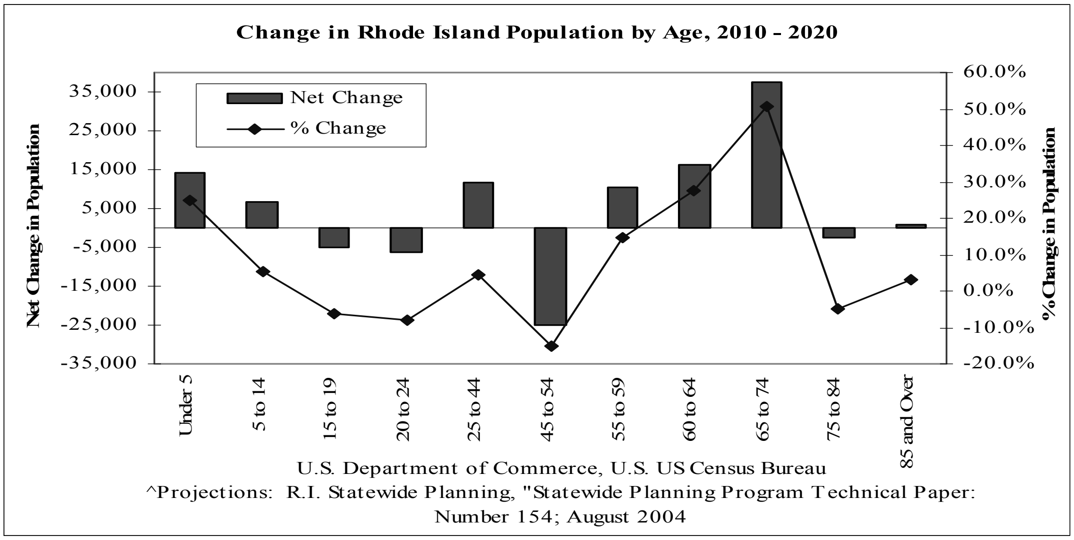
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	0.9%
2006	1,060	-0.5%	14,259	0.2%	298,593	1.0%
2007	1,055	-0.5%	14,298	0.3%	301,580	1.0%
2008	1,054	-0.1%	14,363	0.5%	304,375	0.9%
2009	1,053	0.0%	14,430	0.5%	307,007	0.9%
2010	1,053	-0.1%	14,445	0.1%	308,746	0.6%
2011	1,051	-0.1%	14,492	0.3%	311,592	0.9%

U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program: data accessed on September 17, 2012

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

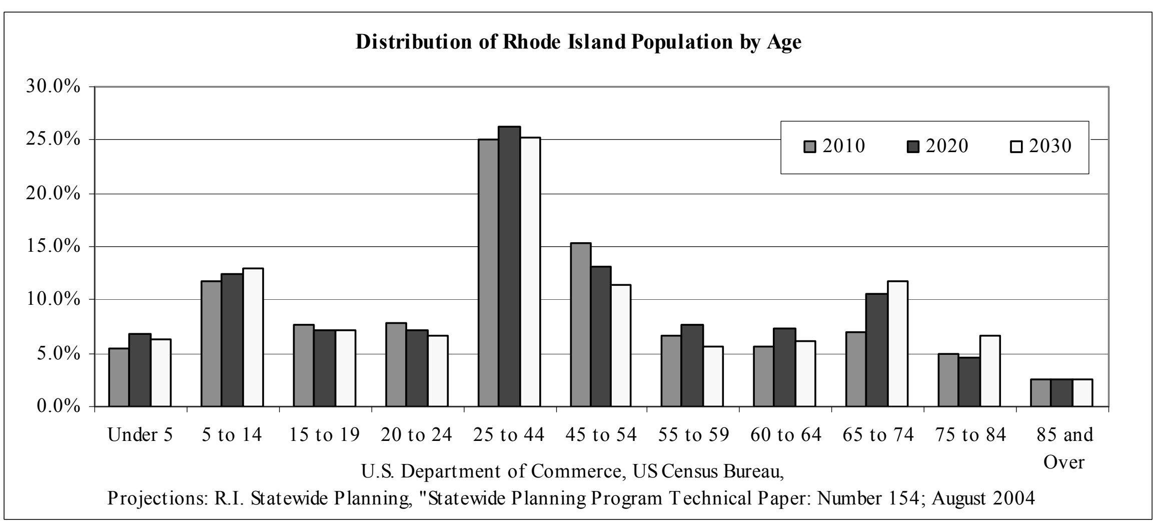


The following chart shows the projected net change in Rhode Island's population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "55 to 74" age group is a reflection of this.



From 2010 to 2020 Rhode Island is expected to see substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state will see a sizeable increase in its older population (i.e., 55 to 74). In addition, the state is expected to experience a decline in its young adult population (i.e., 15 to 24). Rhode Island, however, is projected to have an increase in its youth population (i.e., under 5 to 14) and its young adult to middle age population (i.e. 25 to 44).

The chart below shows the projected population for Rhode Island in 2030. In 2030, Rhode Island Statewide Planning projects the population to be distributed more heavily in the "65 – 84" age group while the percentage of people in the "15 – 64" age group declines from 2020 levels. In addition, the percentage of the population 85 and over is expected to remain higher than 2010 levels. The median age for Rhode Islanders in 2010 was 39.4 years. In 2020, the median age for Rhode Islanders is projected to decrease to 39.2 years but increase to 39.7 years by 2030 based on the U.S. Census Bureau's projections from the 2000 Census.



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 nominal personal income exceeded that of the United States in 2011. Rhode Island per capita nominal personal income was $2,329 more than United States per capita nominal personal income for 2011. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 1997 through 2011 by an average of $6,400. In fact, the gap between Rhode Island per capita nominal personal income and New England nominal personal income has narrowed since 2000. In 2011, the gap was $7,082 which is slightly less than the gap of $7,129 that existed in 2000.

From 1998 – 2000, Rhode Island per capita real income growth trailed that of the United States. From 2001-2003 Rhode Island per capita real income growth exceeded that of the United States and New England. For 2004 and 2005 Rhode Island per capita real income growth trailed that of the United States and New England. Rhode Island per capita real income growth reached 3.1 percent in 2006 before declining to 2.7 percent and 0.3 percent in 2007 and 2008 respectively. In 2009, Rhode Island saw negative per capita real income growth but not as severe as either New England or the United States. For 2010 and 2011, Rhode Island's per capita real personal income growth reached 1.5 percent and 2.3 percent respectively surpassing the 1.1 percent growth of both New England and the United States in 2010 and the 2.0 percent and 1.7 percent growth for New England and the United States respectively in 2011.

Per Capita Personal Income, 1997 - 2011

	Nominal Income* (in current dollars)				Real Income (in 2005 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**PCE Deflator^**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1997	25,621	30,087	25,654	85.4%	29,990	35,218	30,028	3.5%	3.6%	3.0%
1998	26,945	32,128	27,258	86.2%	31,242	37,252	31,605	4.2%	5.8%	5.3%
1999	27,741	33,581	28,333	87.6%	31,654	38,318	32,331	1.3%	2.9%	2.3%
2000	29,552	36,682	30,399	89.8%	32,902	40,840	33,845	3.9%	6.6%	4.7%
2001	31,170	37,966	31,145	91.5%	34,055	41,479	34,027	3.5%	1.6%	0.5%
2002	32,159	38,096	31,461	92.8%	34,662	41,062	33,910	1.8%	-1.0%	-0.3%
2003	33,472	38,771	32,271	94.7%	35,361	40,959	34,092	2.0%	-0.2%	0.5%
2004	35,079	40,809	33,881	97.1%	36,119	42,019	34,886	2.1%	2.6%	2.3%
2005	36,217	42,345	35,424	100.0%	36,217	42,345	35,424	0.3%	0.8%	1.5%
2006	38,355	45,585	37,698	102.7%	37,339	44,377	36,699	3.1%	4.8%	3.6%
2007	40,437	48,159	39,461	105.5%	38,329	45,649	37,404	2.7%	2.9%	1.9%
2008	41,882	49,648	40,909	108.9%	38,444	45,572	37,551	0.3%	-0.2%	0.4%
2009	40,612	47,427	38,816	109.0%	37,257	43,509	35,610	-3.1%	-4.5%	-5.2%
2010	41,993	48,869	40,012	111.1%	37,802	43,992	36,019	1.5%	1.1%	1.1%
2011	43,992	51,074	41,663	113.8%	38,660	44,884	36,614	2.3%	2.0%	1.7%

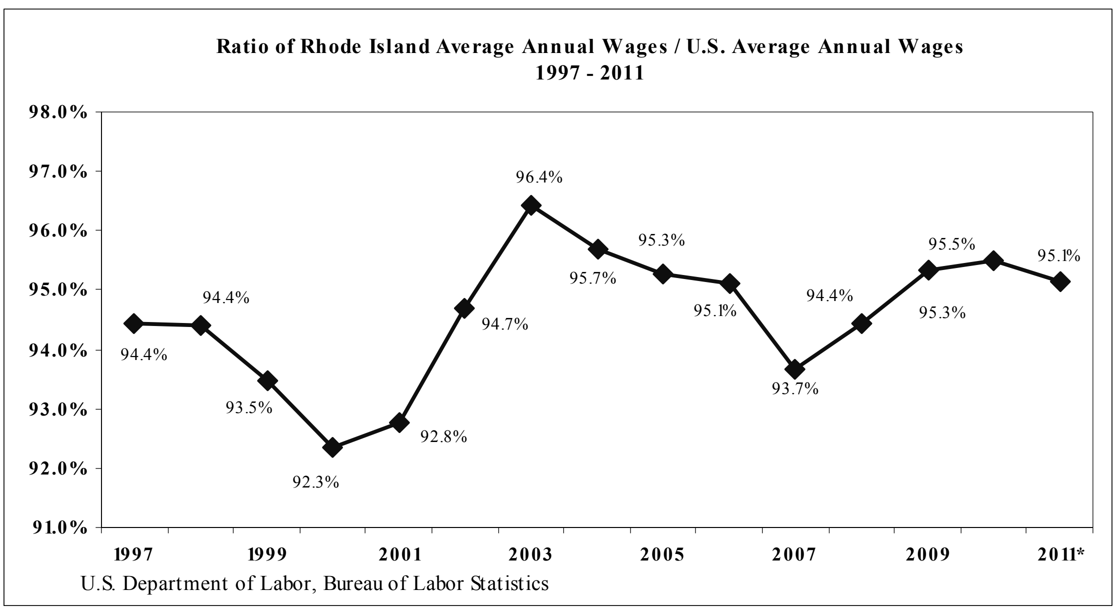
*U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Census Bureau
Per Capita Personal Income is calculated by taking Personal Income/Total Population
^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 2005=100]

Average Annual Pay. Average annual pay has grown steadily in Rhode Island over the past fifteen 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 fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003 rebounding for the first time in 2008. In 1997, average annual pay in Rhode Island was 94.4 percent of the national average. By 2000, the ratio had fallen to 92.3 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 at $36,415 for Rhode Island versus $37,765 for the United States as a whole. From 2004 - 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S.; however, from 2008-2010 Rhode Island has actually seen greater increases in average annual pay than the United States. In 2011 Rhode Island again slightly decreased as a percentage of average annual pay in the U.S. In 2011 Rhode Island average annual pay increased by 2.4 percent from 2010 compared to the U.S. which increased by 2.8 percent. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1996 - 2010 (in current dollars)					
	Annual Pay			Percentage Change	
Year	R.I.	U.S.	R.I. / U.S.	R.I.	U.S.
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	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%
2009	43,439	45,559	95.3%	1.0%	0.0%
2010	44,645	46,751	95.5%	2.8%	2.6%
2011*	45,702	48,040	95.1%	2.4%	2.8%

U.S. Department of Labor, Bureau of Labor Statistics; Quarterly Census of Employment and Wages
* Preliminary

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over 1997 – 2011.



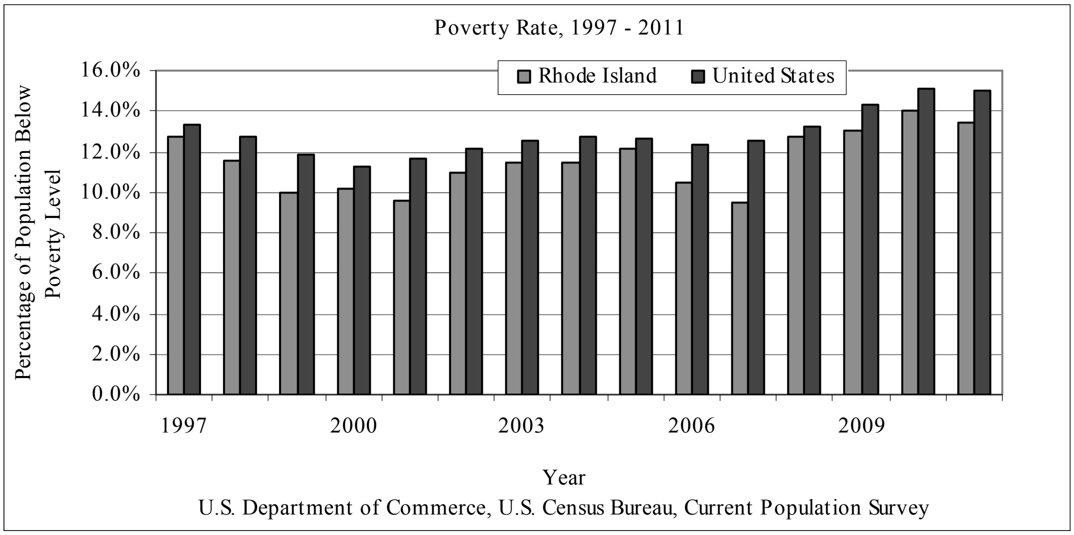
Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1997 and 2011. The data for each year is the Consumer Price Index for all urban consumers (CPI-U) within the designated area and the percentage change in the CPI-U from the previous year. From 1997 to 2011, the consumer price inflation in the Northeast generally exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1998, 1999, 2007, and 2011. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2010 the rate was 0.4 percent above the United States. In 2011 the rate was 0.2 percent below the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1997 - 2011					
	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
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%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.5	106.9%	0.0%	-0.4%
2010	233.9	218.1	107.3%	2.0%	1.6%
2011	241.0	224.9	107.1%	3.0%	3.2%
U.S. Department of Labor, Bureau of Labor Statistics					

Poverty. From 1997 – 2011 Rhode Island's poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau's Current Population Survey. Between 1997 and 2011, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 14.0 percent in 2010. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 2010. Interestingly, in the 2002, 2003, 2005, 2008 and 2010 periods, although Rhode Island's poverty rate had remained below that of the United States, the percentage change in Rhode Island's poverty rate had 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 1997 through 2011.

Poverty Rate, 1996 - 2011					
			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
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%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%
2009	13.0	14.3	90.9%	2.4%	8.3%
2010	14.0	15.1	92.7%	7.7%	5.6%
2011	13.4	15.0	89.3%	-4.3%	-0.7%
U.S. Department of Commerce, U.S. Census Bureau, Current Population Survey					

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1997 – 2011. It also illustrates the downward trend in the United States poverty rate from 1997 – 2000.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1997 to 2011 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1997 - 2011

Not Seasonally Adjusted

	Construction, Natural Resources & Mining		**Manufacturing**		**Trade, Transportation & Utilities**		**Information, Financial Activities, & Business Services**		**Educational & Health Services**		**Leisure, Hospitality & Other Services**		**Government**		**Nonfarm Employment**	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1997	14,800	4.5%	76,200	-1.5%	72,900	0.3%	82,550	5.5%	80,725	2.0%	59,600	3.3%	63,217	3.1%	**449,992**	**2.1%**
1998	16,183	9.3%	74,875	-1.7%	74,683	2.4%	86,733	5.1%	81,625	1.1%	60,975	2.3%	62,933	-0.4%	**458,008**	**1.8%**
1999	18,000	11.2%	72,175	-3.6%	75,658	1.3%	89,950	3.7%	82,317	0.8%	64,042	5.0%	63,383	0.7%	**465,525**	**1.6%**
2000	18,367	2.0%	71,192	-1.4%	79,600	5.2%	92,908	3.3%	83,233	1.1%	67,025	4.7%	64,392	1.6%	**476,717**	**2.4%**
2001	19,242	4.8%	67,767	-4.8%	79,300	-0.4%	93,958	1.1%	84,925	2.0%	68,008	1.5%	65,208	1.3%	**478,408**	**0.4%**
2002	19,625	2.0%	62,267	-8.1%	80,475	1.5%	92,967	-1.1%	88,008	3.6%	69,958	2.9%	66,083	1.3%	**479,383**	**0.2%**
2003	20,942	6.7%	58,658	-5.8%	80,767	0.4%	94,658	1.8%	90,975	3.4%	72,042	3.0%	66,208	0.2%	**484,250**	**1.0%**
2004	21,200	1.2%	56,983	-2.9%	80,225	-0.7%	98,433	4.0%	92,933	2.2%	73,208	1.6%	65,533	-1.0%	**488,517**	**0.9%**
2005	22,058	4.0%	54,908	-3.6%	80,100	-0.2%	100,200	1.8%	95,317	2.6%	73,517	0.4%	64,925	-0.9%	**491,025**	**0.5%**
2006	23,092	4.7%	52,692	-4.0%	79,750	-0.4%	102,467	2.3%	97,108	1.9%	73,225	-0.4%	64,942	0.0%	**493,275**	**0.5%**
2007	22,417	-2.9%	50,733	-3.7%	79,750	0.0%	101,442	-1.0%	99,225	2.2%	74,600	1.9%	64,433	-0.8%	**492,600**	**-0.1%**
2008	20,675	-7.8%	47,942	-5.5%	77,383	-3.0%	98,617	-2.8%	100,050	0.8%	73,767	-1.1%	63,475	-1.5%	**481,908**	**-2.2%**
2009	17,383	-15.9%	41,767	-12.9%	73,267	-5.3%	93,883	-4.8%	100,992	0.9%	71,125	-3.6%	62,092	-2.2%	**460,508**	**-4.4%**
2010	16,117	-7.3%	40,350	-3.4%	72,700	-0.8%	94,100	0.2%	102,500	1.5%	71,583	0.6%	61,717	-0.6%	**459,067**	**-0.3%**
2011	15,842	-1.7%	40,683	0.8%	73,125	0.6%	95,092	1.1%	103,542	1.0%	71,275	-0.4%	60,608	-1.8%	**460,167**	**0.2%**

Data reflects twelve month average of nonseasonaly adjusted data.
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Between 1997 and 2011, total nonfarm employment in Rhode Island increased by 2.3 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing and Government which declined by 46.6 percent and 4.1 percent respectively. Total nonfarm employment growth from 1997 to 2000 averaged 2.0 percent. In 2001, Rhode Island employment growth saw a minimal increase 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, Rhode Island employment grew by a rate of 1.0 percent and then began decreasing at rates of 0.9 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively. The first negative growth in nonfarm employment came in the 2007 and continued through 2010 with decreases of 0.1 percent, 2.2 percent, 4.1 percent and 0.3 percent. In 2011 Rhode Island employment growth was 0.2 percent, the first positive growth in nonfarm employment since 2006,

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 2001 to 2011. Total nonfarm employment decreased by 3.8 percent during this period, and the composition of total employment changed markedly. Employment declined by 17.8 percent in Manufacturing, Construction, Natural Resources and Mining, Trade, Transportation and Utilities and Government during this time period. Meanwhile, average employment growth for all other sectors increased 9.3 percent. The sector which saw the largest gain during this period was Educational & Health Services, which grew by 22.5 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2001 to 2011 period, transforming from a manufacturing and construction based economy to service based economy.

Rhode Island Nonfarm Employment by Industry, 2001 & 2011

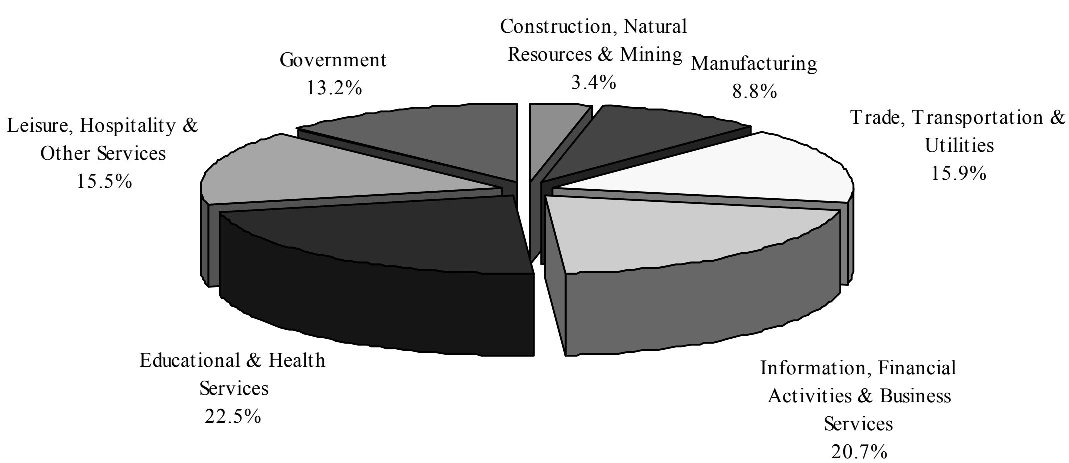
Employment Sector	2001	% of Total	2011	% of Total	% Change 2001-2011
Construction, Natural Resources & Mining	19,242	4.0%	15,842	3.4%	-17.7%
Manufacturing	67,767	14.2%	40,683	8.8%	-40.0%
Trade, Transportation & Utilities	79,300	16.6%	73,125	15.9%	-7.8%
Information, Financial Activities & Business Services	93,958	19.6%	95,092	20.7%	1.2%
Educational & Health Services	84,925	17.8%	103,542	22.5%	21.9%
Leisure, Hospitality & Other Services	68,008	14.2%	71,275	15.5%	4.8%
Government	65,208	13.6%	60,608	13.2%	-7.1%
Total Employment	478,408	100.0%	460,167	100.0%	-3.8%

Data reflects twelve month average of nonseasonaly adjusted data
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy. The Educational and Health Services sector, with 22.5 percent of the nonfarm work force in 2011, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.7 percent), Trade, Transportation and Utilities (15.9 percent), Leisure, Hospitality and Other Services employment (15.5 percent), Government (13.2 percent), Manufacturing (8.8 percent), and Construction, Natural Resources and Mining (3.4 percent).

Rhode Island Nonfarm Employment by Industry, 2011

U.S. Department of Labor, Bureau of Labor Statistics



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 between

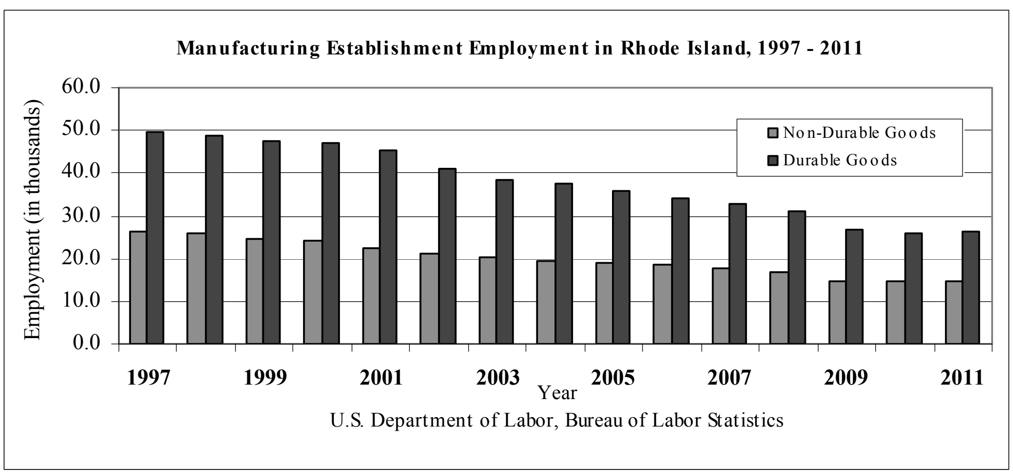
1997 and 2010, falling by 47.0 percent. In 2011 total manufacturing employment increased by 0.8 percent. The rate of decline in manufacturing employment began to slow with the onset of the "Y2K expansion" that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.6 percent in 2001. This rate of decline accelerated further in 2002 to 8.2 percent. Since that time, the rate of decline has again decelerated to 2.9 percent in 2004, 3.6 percent in 2005, 4.0 percent in 2006 and 3.7 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 12.9 percent in 2009 before decelerating to 3.4 percent in 2010. In 2011, Rhode Island saw its first year of positive growth in manufacturing employment over the fifteen year period. Manufacturing employment increased by 333 jobs in 2011 with increased employment in both non-durable goods and durable goods manufacturing.

Manufacturing Establishment Employment in Rhode Island, 1997 - 2011
(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Non-Durable Goods	26.4	25.9	24.8	24.0	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.8	14.9	14.5	14.6
Percentage Change	0.7%	-1.9%	-4.2%	-3.2%	-5.8%	-5.9%	-5.1%	-3.4%	-2.8%	-1.8%	-3.9%	-6.0%	-11.5%	-2.6%	0.4%
Durable Goods	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	26.9	25.9	26.1
Percentage Change	-2.5%	-1.7%	-3.4%	-0.4%	-4.0%	-9.3%	-6.2%	-2.6%	-4.1%	-5.2%	-3.6%	-5.2%	-13.6%	-3.8%	1.1%
Total Manufacturing Employment	76.2	74.9	72.1	71.1	67.8	62.3	58.7	57.0	54.9	52.7	50.7	47.9	41.8	40.4	40.7
Percentage Change	-1.4%	-1.7%	-3.7%	-1.4%	-4.6%	-8.2%	-5.8%	-2.9%	-3.6%	-4.0%	-3.7%	-5.5%	-12.9%	-3.4%	0.8%

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Employment in the manufacture of non-durable goods declined in every year except 1997 and 2011 when it grew at a rate of 0.7 percent 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.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island as reported by the Rhode Island Economic Development Corporation. Together, the largest 50 employers employ 129,732 persons, which equates to 28.3 percent of total nonfarm employment in the State, excluding municipal employment.

Rhode Island's Largest Employers		
Employed	**Employer**	**Industry**
14,904	State of Rhode Island - *excluding URI, RIC, and CCRI*	Government
11,869	Lifespan	Health Care and Social Assistance
11,581	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
5,953	Care New England	Health Care and Social Assistance
5,800	CVS Corporation	Retail Trade
4,991	Citizens Financial Group, Inc.	Finance and Insurance
4,800	Brown University	Educational Services
3,632	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
3,500	Bank of America	Finance and Insurance
2,934	Fidelity Investments	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,604	MetLife Insurance Co.	Finance and Insurance
2,243	General Dynamics Corp.	Manufacturing
2,155	University of Rhode Island	Educational Services
2,078	Wal-Mart	Retail Trade
2,050	The Jan Companies	Other
1,900	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,865	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
1,780	The Home Depot, Inc.	Retail Trade
1,750	Hasbro, Inc.	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,430	Raytheon	Manufacturing
1,410	Amica Life Insurance Company	Finance and Insurance
1,400	Johnson & Wales University	Educational Services
1,353	Rite Aid Pharmacy	Retail Trade
1,272	Landmark Health Systems	Health Care and Social Assistance
1,200	APC Schneider Electric	Manufacturing
1,160	Securitas AB	Security Services
1,123	Verizon Communications	Information
1,119	Cox Communications, Inc.	Information
1,103	GTECH Corporation	Information
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,082	McDonald's	Other
1,050	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
950	Veterans' Administration Medical Center	Health Care and Social Assistance
930	Rhode Island School of Design	Educational Services
930	Providence College	Educational Services
900	Newport Harbor Corporation	Other
900	Amgen, Inc.	Manufacturing
898	Belo Corporation	Information
888	Lowe's Home Improvement	Retail Trade
887	Rhode Island College	Educational Services
873	Twin River (UTGR)	Gambling
859	Target Corporation	Retail Trade
R.I. Economic Development Corporation		

Unemployment. From 1997 to 2000, the Rhode Island unemployment rate was higher than the national unemployment rate with the exception of 1999. This pattern was reversed from 2001 to 2004 when Rhode Island's unemployment rate was lower than that of the United States. From 2006 to 2011, Rhode Island's unemployment rate again rose above the United States. 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 1997 and 2011.

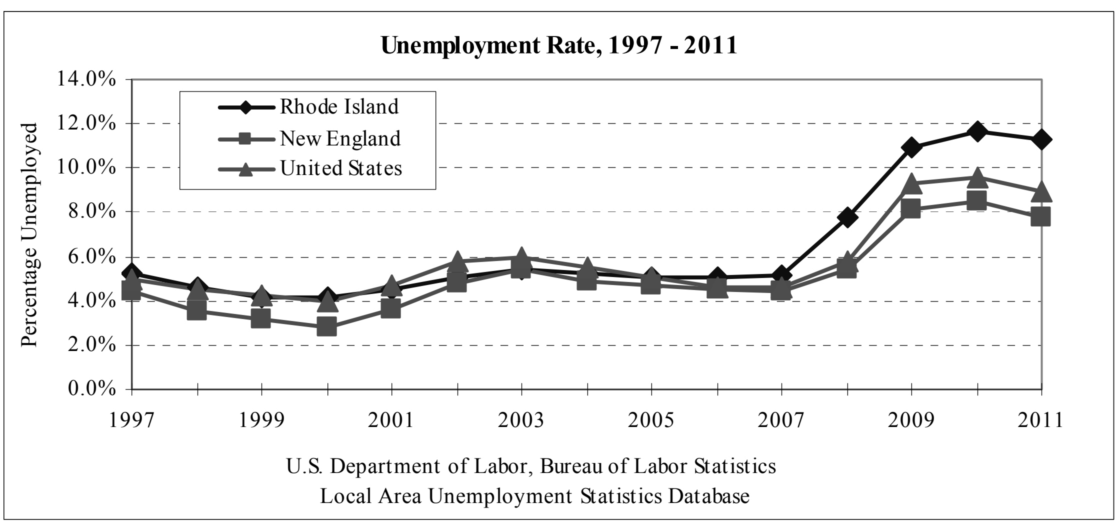
Annual Average Civilian Labor Force and Unemployment, 1997 - 2011
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a %
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1997	532	7,228	136,297	28	315	6,739	5.2%	4.4%	5.0%	105.1%
1998	534	7,257	137,673	24	253	6,210	4.6%	3.5%	4.5%	101.7%
1999	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	99.4%
2000	543	7,348	142,583	23	204	5,692	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,801	4.5%	3.6%	4.7%	95.2%
2002	554	7,496	144,863	28	363	8,378	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,774	5.4%	5.4%	6.0%	90.0%
2004	555	7,476	147,401	29	366	8,149	5.2%	4.9%	5.5%	94.5%
2005	561	7,516	149,320	28	353	7,591	5.1%	4.7%	5.1%	100.0%
2006	573	7,607	151,428	29	344	7,001	5.1%	4.5%	4.6%	110.9%
2007(G)	574	7,646	153,124	30	342	7,078	5.2%	4.5%	4.6%	112.9%
2008(G)	571	7,711	154,287	44	418	8,924	7.7%	5.4%	5.8%	133.3%
2009(G)	565	7,732	154,142	62	629	14,265	10.9%	8.1%	9.3%	117.2%
2010(D)	570	7,756	153,889	67	659	14,825	11.7%	8.5%	9.6%	121.8%
2011(D)	563	7,740	153,617	63	599	13,747	11.3%	7.8%	8.9%	126.4%

U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database,
Data reflects twelve month average of nonseasonaly adjusted data.
(G) Reflects model reestimation. (D) Reflects data affected by changes in population controls.

In 2011, the State's unemployment rate was 11.3 percent and New England's unemployment rate was 7.8 percent.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1997 - 2011 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 since the onset of the recession.



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

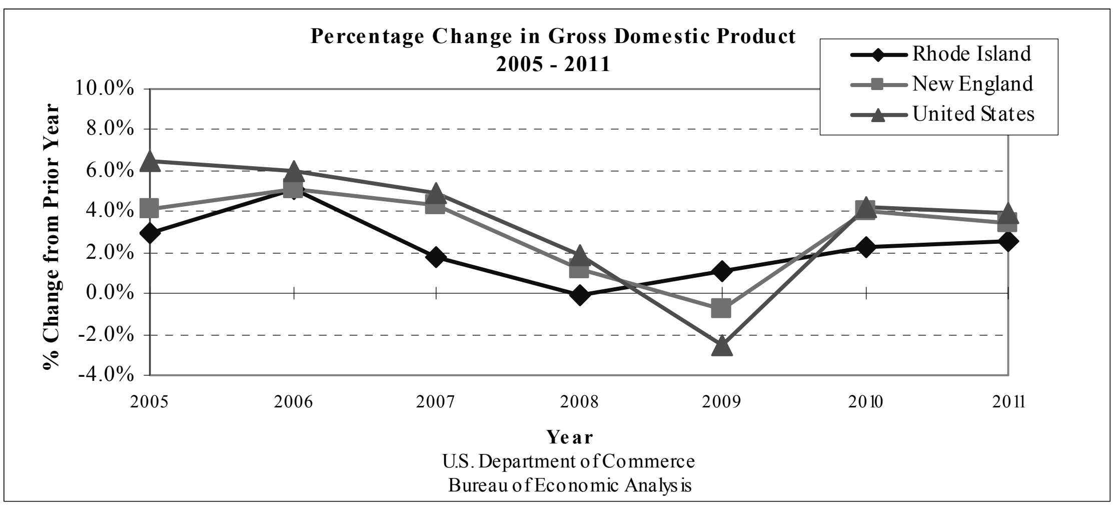
From 2005 – 2011, growth in the Rhode Island Gross Domestic Product (GDP) was less than GDP growth in the United States except for 2009. Rhode Island GDP grew in 2009, although only slightly at 1.1 percent, which was greater than the negative 0.7 percent GDP growth in New England and the negative 2.5 percent GDP growth in the United States. The table below gives Gross Domestic Product and the annual growth rates for Rhode Island, New England and the Unites States from 2005 – 2011.

Gross Domestic Product, 2005 - 2011
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2005	44,189	2.9%	685,766	4.2%	12,539,116	6.5%
2006	46,450	5.1%	720,729	5.1%	13,289,235	6.0%
2007	47,293	1.8%	751,779	4.3%	13,936,199	4.9%
2008	47,231	-0.1%	760,815	1.2%	14,193,120	1.8%
2009	47,738	1.1%	755,221	-0.7%	13,834,700	-2.5%
2010	48,840	2.3%	785,607	4.0%	14,416,601	4.2%
2011	50,091	2.6%	812,997	3.5%	14,981,020	3.9%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total

The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2005 - 2011. As indicated by the graph Rhode Island GDP growth was substantially lower than that of New England and the United States during the onset of the recession until 2009 when Rhode Island's GDP growth was greater than both the U.S. and New England. Rhode Island, however, was not able to maintain this momentum into 2010 and 2011 when GDP growth again fell below that of New England and the United States.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in nearly all sectors from 2005 to 2011.

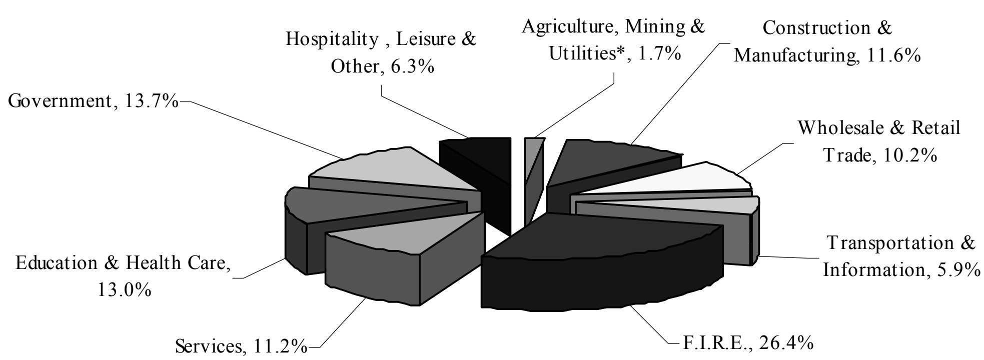
Gross Domestic Product by Industry in Rhode Island, 2005 - 2011
(millions of current dollars)

Industrial Sector	2005	2006	2007	2008	2009	2010	2011
Agriculture, forestry, fishing and hunting	82	89	85	81	74	69	(D)
Mining	24	22	22	29	30	20	(D)
Utilities	625	755	739	790	765	778	749
Construction	2,263	2,381	2,337	2,157	1,990	1,867	1,875
Manufacturing	4,051	4,517	4,202	4,065	3,453	3,737	3,946
Wholesale Trade	2,241	2,282	2,407	2,344	2,241	2,343	2,433
Retail Trade	2,746	2,746	2,805	2,620	2,565	2,713	2,673
Transportation and warehousing, excluding postal service	681	715	706	745	719	708	752
Information	1,869	1,849	1,770	1,924	2,016	2,027	2,194
Finance and insurance	5,090	5,468	5,553	4,951	6,290	6,199	6,310
Real estate, rental and leasing	6,565	6,680	6,936	7,165	7,415	7,032	6,936
Professional and technical services	2,321	2,624	2,668	2,766	2,581	2,735	2,836
Management of companies and enterprises	1,109	1,249	1,330	1,415	1,265	1,384	1,513
Administrative and waste services	1,093	1,107	1,166	1,175	1,136	1,214	1,252
Educational services	1,037	1,112	1,187	1,264	1,317	1,357	1,365
Health care and social assistance	4,087	4,282	4,397	4,616	4,816	5,033	5,165
Government	5,472	5,672	5,963	6,188	6,216	6,597	6,854
Hospitality , Leisure & Other	2,833	2,898	3,020	2,936	2,850	3,028	3,150
Total GDP*	**44,189**	**46,450**	**47,293**	**47,231**	**47,738**	**48,840**	**50,091**

U.S. Department of Commerce, Bureau of Economic Analysis; Gross Domestic Product by State
* Differences are attributed to rounding for 2006, 2009 and 2010
(D) Not shown in order to avoid the disclosure of confidential information; estimates are included in higher level totals.

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2011 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2011
U.S. Department of Commerce, Bureau of Economic Analysis



*Includes 88 million the total difference between Total GDP reported by the BEA and the sum across each Industrial Sector. It is assumed any difference is a direct result of non-disclosure for confidentiality purposes.

Finance, Insurance and Real Estate. This is the second largest sector of Rhode Island's economy in terms of number of dollars. F.I.R.E. contributed 26.4 percent of GDP in 2011. In 2011, F.I.R.E. accounted for $13.2 billion of the $50.1 billion total gross domestic product. For the period 2005 - 2011 this sector expanded by a respectable 13.7 percent.

Construction and Manufacturing. In 2011, Construction and Manufacturing was the fourth largest sector of Rhode Island's economy at $5.8 billion, or 11.6 percent of the total Gross Domestic Product. This sector decreased by -7.8 percent from the 2005 level and in its percent contribution to GDP. In 2005, Construction and Manufacturing comprised a larger piece of GDP at 14.3 percent of the total.

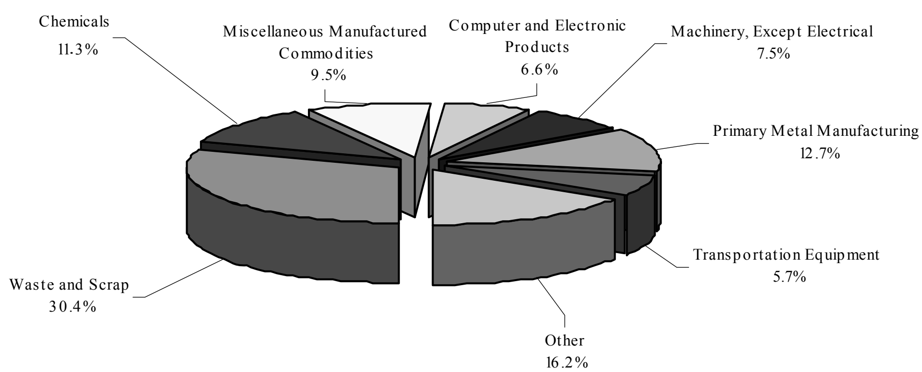
Government. At 13.7 percent of GDP in 2011, the Government sector has grown slowly and steadily since 2005. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes only slightly more as a percentage of GDP in 2011 than it did in 2005. In 2004, the Government sector accounted for 12.4 percent of GDP. This sector grew by 3.7 percent in 2006, 5.1 percent in 2007, 3.8 percent in 2008, 0.5 percent in 2009, 6.1 percent in 2010 and 3.9 percent in 2011. In 2011, the Government sector contributed $6.9 billion of total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2005, Services have remained an important sector accounting for 30.5 percent, the largest portion of Rhode Island's GDP in 2011. From 2005 to 2011, Services have grown by 22.4 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 2008 was $1.97 billion. This represented 4.2 percent of Rhode Island Gross Domestic Product of $47.2 billion. In 2011, Rhode Island's exports increased to $2.28 billion, an increase of 15.6 percent over 2008 levels.

Composition of Rhode Island Exports by Industry Group 2011
U.S. Census Bureau, Foreign Trade Division
(WISER) - World Institute for Strategic Economic Research



The most important exports, as shown in the chart above, were waste and scrap, 30.4 percent; primary metal manufacturing, 12.7 percent; chemicals, 11.3 percent; miscellaneous manufactured commodities, 9.5 percent; machinery, except electrical, 7.5 percent; computers and electronic products, 6.6 percent; transportation equipment, 5.7 percent; and all other exports, 16.2 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2008-2011.

Rhode Island Exports by Industry, 2008 - 2011 (in thousands of dollars)	2008	2009	2010	2011
Total All Industries	1,974,432	1,495,522	1,949,146	2,282,413
Waste and Scrap	520,488	385,309	528,760	694,876
Primary Metal Manufacturing	98,877	66,483	161,024	289,878
Chemicals	175,625	125,365	222,274	257,379
Miscellaneous Manufactured Commodities	296,330	178,292	216,698	217,355
Machinery, Except Electrical	245,335	135,858	165,942	170,706
Computer and Electronic Products	183,742	184,433	172,552	150,957
Transportation Equipment	78,949	106,132	129,811	130,811
Plastics and Rubber Products	115,872	94,582	95,173	90,743
Electrical Equipment, Appliances and Component	76,468	45,787	64,670	68,245
Textiles and Fabrics	25,567	21,445	34,340	49,338
Fabricated Metal Products, NESOI	48,120	46,788	37,388	38,087
Fish - Fresh, Chilled or Frozen & Other Marine Products	30,367	29,392	27,916	28,515
Paper	16,065	12,778	17,237	19,886
Food and Kindred Products	7,184	8,398	6,593	14,856
Printing, Publishing and Similar Products	10,417	10,351	11,840	11,047
Textile Mill Products	6,061	6,972	8,144	10,353
Special Classification Provisions, Nesoi	4,549	4,164	9,996	7,652
Minerals and Ores	1,345	11,664	14,975	6,933
Nonmetallic Mineral Products	8,479	5,704	5,188	6,856
Furniture and Fixtures	6,880	4,193	6,002	4,613
Apparel and Accessories	6,947	3,743	4,528	4,591
Leather and Allied Products	3,516	2,635	1,130	2,436
Used or Second-Hand Merchandise	2,768	2,401	3,003	2,385
Petroleum and Coal Products	1,378	292	2,001	2,272
Wood Products	840	793	773	568
Forestry Products, Nesoi	75	414	580	502
Livestock and Livestock Products	546	581	395	324
Agricultural Products	687	51	12	127
Prepackaged Software	184	112	122	40
Goods Returned to Canada (Exports Only); U.S. Goods	514	337	15	32
Beverages and Tobacco Products	255	73	43	28
Oil and Gas	0	0	21	26
(WISER) - World Institute for Strategic Economic Research U.S. Census Bureau, Foreign Trade Division				

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 2000 the number of housing permits authorized in Rhode Island decreased by 18.1 percent. In 2011, the number of housing permits authorized decreased by 18.8 percent in Rhode Island, compared to a decrease of 17.6 percent for New England and an increase of 0.3 percent for the United States.

	Housing Permits Authorized, 1997 - 2011 (seasonally adjusted)					
	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1997	2,726	15.7%	42,279	5.7%	1,442,000	1.5%
1998	2,653	-2.7%	47,906	13.3%	1,619,000	12.3%
1999	3,239	22.1%	47,371	-1.1%	1,662,000	2.7%
2000	2,654	-18.1%	43,754	-7.6%	1,600,000	-3.7%
2001	2,401	-9.5%	42,928	-1.9%	1,639,000	2.4%
2002	2,602	8.4%	47,296	10.2%	1,750,000	6.8%
2003	2,445	-6.0%	48,425	2.4%	1,889,000	7.9%
2004	2,511	2.7%	56,139	15.9%	2,058,000	8.9%
2005	2,945	17.3%	56,815	1.2%	2,162,000	5.1%
2006	2,264	-23.1%	48,229	-15.1%	1,846,000	-14.6%
2007	1,919	-15.2%	36,520	-24.3%	1,391,000	-24.6%
2008	1,165	-39.3%	24,007	-34.3%	896,000	-35.6%
2009	918	-21.2%	17,364	-27.7%	582,000	-35.0%
2010	922	0.4%	20,842	20.0%	605,000	4.0%
2011	749	-18.8%	17,178	-17.6%	607,000	0.3%
Federal Reserve Bank of Boston, Regional Data New England Economic Indicators: Source: U.S. Census Bureau.						

From 1996 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.7 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below, data is not available for the New England Region from 2005-2007 due to the fact that the National Association of Realtors (NAR) did not report home sales for New Hampshire and Vermont because of sampling issues with some of the surveys. .

	Existing Home Sales, 1996 - 2010 (seasonally adjusted at annual rates, in thousands)					
	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1996	12.8	10.6%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	261.8	0.1%	5,656.7	6.2%
2003	16.8	-2.3%	265.8	1.5%	6,175.9	9.2%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.1	-21.1%	214.8	-	4,893.5	-13.7%
2009	15.1	15.3%	219.8	2.3%	5,160.0	5.4%
2010	13.6	-9.9%	218.1	-0.8%	4,919.0	-4.7%
Federal Reserve Bank of Boston; Source: National Association of Realtors						

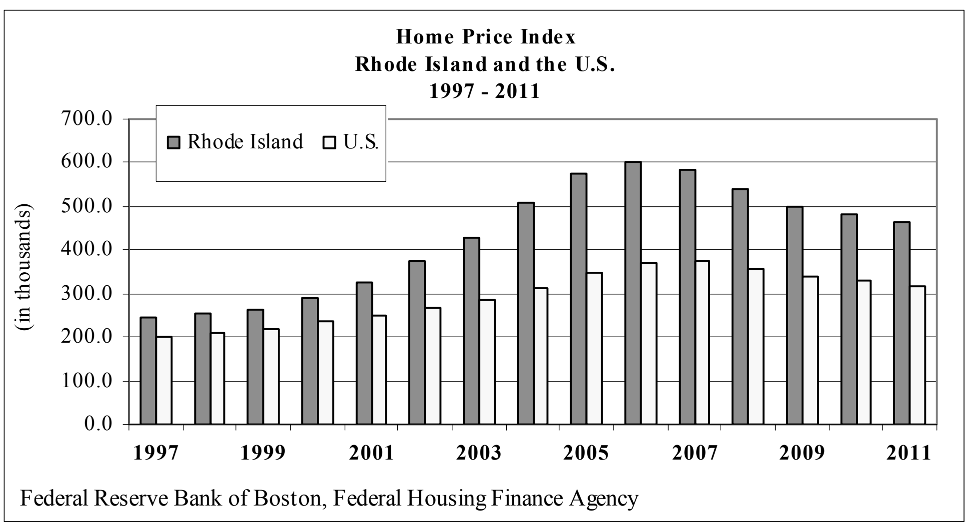
The NAR discontinued their quarterly existing home sales by state series as of February 9, 2012. The NAR will continue to provide existing-home sales series for the four major regions and for the nation. The reporting will align with new-home sales releases by the U.S. Census Bureau and U.S. Department of Housing and Urban Development. As a result, the last full year of data reported by NAR is 2010.

Home Price Index
Rhode Island and the U.S, 1997 - 2011
(not seasonally adjusted, in thousands)

Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
1997	243.4	199.7	121.9%
1998	252.7	210.0	120.4%
1999	263.5	220.3	119.6%
2000	291.0	234.4	124.2%
2001	323.7	251.9	128.5%
2002	373.7	267.8	139.5%
2003	428.3	284.4	150.6%
2004	507.6	310.9	163.3%
2005	576.4	346.0	166.6%
2006	600.5	371.2	161.8%
2007	585.6	376.0	155.8%
2008	541.7	358.8	151.0%
2009	501.2	340.8	147.0%
2010	481.1	328.2	146.6%
2011	462.3	316.7	145.9%

Federal Reserve Bank of Boston, Source: Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appears in the chart below and table above. While the Rhode Island home price index was 121.9 percent of the U.S. average in 1997, by 1999 it had fallen to 119.6 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 166.6 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2011 stands at 145.9 percent of the U.S. level.



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 $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island companies remained flat at $418 million. By 2008, however, contracts awarded to Rhode Island companies had increased to $682 million or an increase of 33.5 percent from 2007. In 2009 the dollar amount of contracts awarded to Rhode Island companies decreased by 2.9 percent but was well above the average of $375 million from 1995-2007 at $662 million. 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 2009. Since 1990, Rhode Island's share of New England contract awards has decreased from 4.1 percent to 2.3 percent of such awards in 2009.

Department of Defense Contract Awards, 1995 - 2009
(in thousands)

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	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%
2007	511	23,239	297,363	2.2%	0.2%
2008	682	26,996	349,557	2.5%	0.2%
2009	662	29,351	327,462	2.3%	0.2%

Department of Defense; Personnel and Military Causalty Statistics: Statistical Information Analysis Division

Travel and Tourism

According to the Rhode Island Economic Development Corporation's Tourism Division, the 2009 Tourism Satellite Account produced by IHS Global Insight and published in November 2010, travel and tourism sales in Rhode Island were $4.99 billion. This generated 42,160 jobs or 9.2 percent of total state employment, and $1.28 billion in employee compensation. Visitation to Rhode Island fell 6.3 percent in 2009 to 16.18 million travelers. Leisure visitation fell by 2.2 percent while business travel experienced a 27.0 percent decline during 2009.

Business spending made up just over 23.0 percent of total expenditures in 2009, compared to just below 13.0 percent of total visits. Business expenditures were down 13.0 percent in 2009, mainly due to a high concentration in accommodations and transportation (the lowest performing statewide category) and a low concentration in shopping (the best performing statewide category).

Leisure spending fell over 8.5 percent in 2009, which is a faster rate of decline than leisure visitation, with leisure visitors cutting back on spending in categories like shopping and entertainment. Looking forward, IHS Global Insight forecasts total U.S. leisure travel to rebound quicker and more significantly than business travel, which should benefit R.I. as the concentration of leisure visitors is higher here than in the entire U.S.

Travel and tourism industry expenditures decreased in 2009 by 5.5 percent. The entertainment sector had the least percentage decrease in 2009 to 1.7 percent. Accommodation sales decreased by 7.4 percent, while transportation decreased by 8.3 percent. The food sector also had a decrease of 2.3 percent. The shopping sector had the only increase in 2009 to 5.9 percent. Travel and tourism annual salary grew by 0.1 percent to an average of $25,400/year. While tourism is responsible for 5.0 percent of Rhode Island GSP; it contributed 8.9 percent of all state government revenue in 2009.

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 1994. The ratio of Rhode Island spending to the national average has varied from 127.2 percent in 1993-94 to a high of 144.4 percent in 2008-09. For the 2008-09 academic year Rhode Island spent 44.4 percent more on public elementary and secondary education than the United States average: $16,211 per student compared to a national average of $11,231 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1993-94 academic year. It should be noted that data for the 2008-09 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1993-94 - 2008-09
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
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	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,778	142.3%
2006-07	14,674	10,336	142.0%
2007-08	15,843	10,982	144.3%
2008-09	16,211	11,231	144.4%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

For the 2008-09 academic year, Rhode Island per pupil expenditures was the fifth 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 2008-09 (Based on Average Daily Attendance)					
Ranking	**State**	**Expenditure**	**Ranking**	**State**	**Expenditure**
	United States	**11,231**			
1	District of Columbia	19,766	27	Oregon	10,673
2	New York	19,373	28	Washington	10,436
3	New Jersey	17,605	29	Missouri	10,341
4	Alaska	16,811	30	Georgia	10,178
5	**Rhode Island**	**16,211**	31	North Dakota	10,113
6	Vermont	16,073	32	Kentucky	10,054
7	Connecticut	15,840	33	South Carolina	10,007
8	Wyoming	15,658	34	Indiana	9,946
9	Massachusetts	15,255	35	New Mexico	9,727
10	Maryland	14,612	36	Arkansas	9,651
11	Maine.	13,558	37	Colorado	9,611
12	Hawaii	13,397	38	Iowa	9,569
13	Pennsylvania	12,989	39	South Dakota	9,457
14	New Hampshire	12,912	40	Florida	9,452
15	Delaware	12,753	41	California	9,439
16	Illinois	12,489	42	Alabama	9,385
17	Ohio	11,911	43	Texas	9,260
18	Wisconsin	11,773	44	North Carolina	9,074
19	Minnesota	11,713	45	Nevada	8,865
20	Virginia	11,696	46	Tennessee	8,676
21	Michigan	11,493	47	Arizona	8,631
22	Kansas	11,482	48	Mississippi	8,610
23	Nebraska	11,457	49	Oklahoma	8,423
24	Louisiana	11,410	50	Idaho	7,567
25	West Virginia	11,347	51	Utah	7,081
26	Montana	10,881			
U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars					

According to the Rhode Island Office of Higher Education, in fall 2011, the total enrollment of part-time and full-time students in Rhode Island institutions of higher education was 93,380. Enrollment in the public sector totaled 43,254 or 46.3 percent of the total enrollment. The independent sector enrolled 50,126 students, or 53.7 percent of the total enrollment. In 2011, Rhode Island institutions of higher education conferred 17,734 degrees and certificates. Rhode Island public institutions awarded 6,500 degrees or 36.7 percent of the total while the private institutions granted 11,234 degrees or 63.3 percent of the total degrees conferred.

Appendix B

[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $81,400,000 State of Rhode Island and Providence Plantations General Obligation Bonds Consolidated Capital Development Loan of 2012, Series B (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, constituting the Consolidated Capital Development Loan of 2012, Series B pursuant to Section 35-8-21 of the Rhode Island General Laws, as amended. 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 October __, 2012 (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. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative

minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986, as amended that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Income from the Bonds is free from personal income taxation by the State or any political subdivision or other instrumentality of the State although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Rhode Island.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds 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 their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

HINCKLEY, ALLEN & SNYDER LLP

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • General Obligation Bonds Consolidated Capital Development Loan of 2012, Series B

Printed by: ImageMaster
www.ImageMaster.com