

NEW ISSUE/BOOK-ENTRY-ONLY

Ratings:

Standard & Poor's: SP-1+

Fitch: F1+

In the opinion of Bond Counsel, under existing law and assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, interest on the Notes is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Notes will, however, be taken into account in computing an adjustment made in determining a corporate Noteholder's minimum tax based on such Noteholder's adjusted current earnings. In addition, the Notes will be exempt from Rhode Island taxes although the Notes and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes. See "TAX STATUS" and "APPENDIX C - Proposed Form of Legal Opinion" herein.

\$350,000,000

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Tax Anticipation Notes
Fiscal Year 2009**

Dated: Date of Delivery

Due: June 30, 2009

The Notes will be issued as fully registered notes 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 Notes will be made in book-entry form only, in denominations of \$1,000 or any integral multiple thereof and no physical delivery of the Notes will be made to purchasers. So long as Cede & Co. is the registered owner of the Notes, principal and interest are payable to DTC by The Bank of New York Mellon Trust Company, N.A., as Paying Agent. Interest on the Notes is payable on June 30, 2009 at the rate shown below. The Notes constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. **The Notes are not subject to redemption prior to maturity.**

<u>No.</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Reoffering Yield</u>	<u>CUSIP No.†</u>
R-1	\$350,000,000	3.50%	2.20%	76222REY4

The Notes are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Partridge Snow & Hahn LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Adler Pollock & Sheehan P.C., Providence, Rhode Island. Certain matters will be passed upon for the Underwriters by their counsel, Moses & Afonso, Ltd., Providence, Rhode Island. First Southwest Company, Lincoln, Rhode Island, is serving as financial advisor to the State on this transaction. Delivery of the Notes to DTC is expected in New York, New York or at its custodial agent, on or about October 31, 2008.

Morgan Stanley

**Banc of America Securities LLC
Oppenheimer & Co., Inc.**

**J.P. Morgan
Roosevelt & Cross, Inc.**

October 27, 2008

†See inside cover

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

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

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.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES 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.

†The CUSIP number has been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Notes. Neither the original purchasers of the Notes nor the State is responsible for the selection or use of the CUSIP number, and no representation is made as to its correctness on the Notes or as indicated on the cover hereof. The CUSIP number is subject to being changed after the issuance of the Notes as a result of various subsequent actions.

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS



CONSTITUTIONAL OFFICERS

Governor..... Donald L. Carcieri
Lieutenant Governor..... Elizabeth H. Roberts
General Treasurer Frank T. Caprio
Attorney General Patrick C. Lynch
Secretary of State..... A. Ralph Mollis

APPOINTED OFFICIALS

Director of Administration..... Jerome F. Williams
Budget Officer Rosemary Booth Gallogly
State Controller..... Marc A. Leonetti
Auditor General Ernest A. Almonte

BOND COUNSEL

Partridge Snow & Hahn LLP, Providence, Rhode Island

DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

First Southwest Company, Lincoln, Rhode Island

OFFICIAL STATEMENT

\$350,000,000

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Tax Anticipation Notes
Fiscal Year 2009**

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its \$350,000,000 General Obligation Tax Anticipation Notes, Fiscal Year 2009 (the "Notes") dated their date of delivery.

SECURITY FOR THE NOTES

The Notes 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 Notes as the same shall become due.

Each Note 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).

Enforcement of a claim for payment of principal of or interest on the Notes 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.

DESCRIPTION OF THE NOTES

General

The Notes will be dated their date of delivery and will bear interest at the rate set forth on the cover page hereof. Principal of and interest on the Notes will be payable on June 30, 2009. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Noteholder, such payments will be made directly to such Noteholder. Disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months.

The Notes are not subject to redemption prior to maturity.

Authorization and Purpose

Under the Constitution of Rhode Island, 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.

Notwithstanding the limitations upon borrowing indicated above, Section 17 of Article VI of the State Constitution permits the General Assembly to provide by law for certain short term borrowing without the consent of the people. Thus, the State is authorized to borrow in any fiscal year, without consent, an amount in anticipation of the State tax receipts not in excess of 20% of the tax receipts for the next prior fiscal year, and may borrow an additional amount in anticipation of all other non-tax receipts not in excess of 10% of such receipts in the said next

prior fiscal year, provided the aggregate of all such borrowings must not exceed 30% of the actual tax receipts during the said next prior fiscal year. Any such borrowings must be repaid during the fiscal year in which such borrowing took place. No money shall be so borrowed in anticipation of such receipts in any fiscal year until all money so borrowed in all previous years shall have been repaid.

Rhode Island General Laws § 35-3-23 (the “Interfund Transfer Act”) permits the Governor to make interfund transfers from the State Temporary Disability Fund and the Intermodal Surface Transportation Fund to the General Fund to cover temporary cash shortages in the General Fund. A transfer of \$25,000,000 has been made from the State Temporary Disability Fund to the General Fund on September 29, 2008 to cover temporary cash shortages prior to the date of issuance of the Notes. It is anticipated that these funds will be repaid with interest in December, 2008. Pursuant to the Interfund Transfer Act, this transfer, and any other transfers made in Fiscal Year 2009, must be repaid with interest by June 30, 2009.

Under the authority and pursuant to the provisions of Chapter 100 of the Public Laws of 2008 passed by the Rhode Island General Assembly, the General Treasurer has the authority, with the advice of the Governor, to borrow up to \$350,000,000 in the aggregate outstanding at any one time in anticipation of taxes to be received in fiscal year 2009. The notes described herein will be issued as a result of such authorization. To date, no other tax anticipation notes have been issued under this authority.

Application of Proceeds

The proceeds received from the sale of the Notes will be deposited in the General Fund of the State and will be applied to general expenses of the State and to pay the temporary loan under the Interfund Transfer Act described above. The actual cash flow for the General Fund of the State for the fiscal year ended June 30, 2008 is set forth in Appendix B-1. The cash flow projection for the General Fund of the State for the fiscal year ending June 30, 2009 is set forth in Appendix B-2.

The projected cash flow for fiscal year ending June 30, 2009 contains actual results through October 14, 2008, and thus reflects revenues received through the end of September 2008 which were approximately \$25.5 million lower than expectations. Any continued shortfall in revenues in the remainder of fiscal 2009 or other revisions to revenues identified in the November 2008 Revenue Estimating Conference will need to be dealt with in a budget balancing plan that will reduce expenditures, increase revenues, or a combination of both. See Appendix A – “Revenue Estimates.”

The projected cash flow for fiscal year ending June 30, 2009 contained in Appendix B-2 assumes up to \$356.2 million debt issuance by the Economic Development Corporation in March 2009 from which the General Fund would be reimbursed for historic tax credits to be paid out to taxpayers over an approximately 13 year period. Approximately 87% of the reimbursement is expected in the first five years. Debt service on these bonds will be subject to annual appropriation by the General Assembly. Approximately \$57.27 million in historic tax credits are expected to be presented by taxpayers in fiscal 2009; approximately \$49.57 million of such credits would be reimbursed from the proceeds of the Economic Development Corporation bond and approximately \$7.7 million would be reimbursed from anticipated processing fees. See Appendix A – “General Fund Revenues and Expenditures – Major Sources of State Revenue” and “State Indebtedness – Authorized but Unissued Obligations Subject to Annual Appropriation.”

Book-Entry-Only System

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

DTC will act as securities depository for the Notes. The Notes 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. Fully registered certificates will be issued in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes 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 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit the Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by

Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State and Paying Agent; disbursement of such payments to Direct Participants shall be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

THE STATE 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 NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE NOTEOWNERS OR REGISTERED OWNERS OF THE NOTES SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

Neither the State nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Notes; (ii) the delivery to any Participant, Beneficial Owner of the Notes or other person, other than DTC, of any notice with respect to the Notes; (iii) the payment to any Participant, Beneficial Owner of the Notes or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Notes; (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 Notes are redeemed in part.

RATINGS

The Notes have been assigned ratings by Fitch Ratings (“Fitch”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”) (collectively, the “Rating Agencies”) as shown on the cover page hereof. 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 Notes 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 Notes.

LEGAL MATTERS

The legality of the Notes will be approved by Partridge Snow & Hahn 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 C. The State will be advised on certain legal matters by Adler Pollock & Sheehan P.C., Providence, Rhode Island, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Moses & Afonso, Ltd., Providence, Rhode Island.

TAX STATUS

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

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding the use, expenditure and investment of bond and note proceeds and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Notes in order for interest on the Notes to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause inclusion of interest on the Notes in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The State will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest on the Notes be or continue to be excludable from gross income for federal income tax purposes.

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

Prospective purchasers of the Notes should be aware that ownership of the Notes may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Notes. Prospective purchasers of the Notes should also be aware that ownership of the Notes may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the collateral federal income tax and state income tax consequences to them of owning the Notes.

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

Note Premium

Under the Code, a purchaser (other than a purchaser who holds such Note as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires a Note (a "Premium Note") for a price in excess of its stated redemption value at maturity, has acquired the Note with a "note premium".

Note premium is amortized over the remaining term of the Premium Note for federal income tax purposes. The purchaser of a Premium Note is required to decrease his or her adjusted basis in the Premium Note by the amount of amortizable note premium attributable to each taxable year during the amortization period. The amount of amortizable note premium attributable to each taxable year is determined actuarially at a constant interest rate. The amortizable note premium attributable to a taxable year is not deductible for federal income tax purposes. The purchaser of a Premium Note should consult his or her own tax advisor with respect to the precise determination for federal income tax purposes of the treatment of note premium upon sale, redemption or other disposition of a Premium Note and with respect to the state and local consequences of owning and disposing of a Premium Note.

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 Notes or in any way contesting or affecting the validity of the Notes.

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.

MISCELLANEOUS

Certification of the Notes

The Notes will be authenticated by The Bank of New York Mellon Trust Company, N.A. (the “Bank”), which certificate will appear on the Notes. The Bank will also act as Paying Agent and as note registrar in connection with the Notes.

Financial Advisor

First Southwest Company is employed as Financial Advisor to the State in connection with the issuance of the Notes. The Financial Advisor’s fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery of the Notes, and receipt by the State of payment therefor.

CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and officially interpreted from time to time (the “Rule”) provides that underwriters may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions.

In order to assist underwriters in complying with the requirements of paragraph (b)(5)(i)(C) of the Rule applicable to municipal securities having a stated maturity of 18 months or less, the State will covenant, for benefit of the beneficial owners of the Notes, to file in a timely manner with each Nationally Recognized Municipal Securities Information Repository or the Municipal Securities Rulemaking Board, and the appropriate State information depository for the State, if any, notice of the occurrence of any of the following events with respect to the Notes, if material:

- (a) principal and interest payment delinquencies;
- (b) nonpayment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Notes;
- (g) modifications to rights of beneficial owners of the Notes,
- (h) Note calls;
- (i) defeasances;
- (j) release, substitution or sale of property securing repayment of the Notes; or
- (k) rating changes.

(It should be noted, however, as of the date of this Official Statement events of the types listed in clauses (b), (c), (d), (e), (h) and (j) are not applicable to the Notes).

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 Notes,

but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

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

Except as noted in the next sentence, the State has never failed within the past five (5) years to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In February 2005, the State submitted its annual disclosure related to Motor Fuel Tax Revenue Bonds and GARVEE Bonds approximately seventeen (17) days late. The State has implemented procedures to insure timely filing in the future.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Rosemary Booth Gallogly, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02908, Telephone (401) 222-6300.

UNDERWRITING

The Notes are being purchased by Morgan Stanley & Co. Incorporated, as representative of the Underwriters (the "Underwriters"). The aggregate offering price of the Notes to the public is \$352,989,000 and the Underwriters have agreed, subject to certain conditions, to purchase the Notes from the State at a purchase price of \$352,343,345.25, and to reoffer the Notes at no greater than the initial public offering price stated on the cover page hereof. The note purchase agreement provides that the Underwriters will purchase all of the Notes if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the note purchase agreement.

J.P. Morgan Securities Inc., one of the underwriters of the Notes, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Notes, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Notes with UBS Financial Services Inc.

ADDITIONAL INFORMATION

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated October 21, 2008 and the Basic Financial Statements of the State, as of and for the year ended June 30, 2007, both of which have been prepared and furnished by the State and which are included in Appendix A.

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

The Official Statement is submitted only in connection with the sale of the Notes 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/ Frank T. Caprio
Frank T. Caprio
General Treasurer

Dated: October 27, 2008

APPENDIX A – Information Statement of the State

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

DATED: October 21, 2008

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STATE GOVERNMENT ORGANIZATION AND FINANCES

General Information

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

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

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

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

Municipalities

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

Since 1985, cities and towns 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 obligations bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

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% in the year 2013 while expanding and clarifying exemptions from the property tax cap. 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. Lastly, the bill required the "Office of Municipal Affairs" to complete a study by November 15, 2006 of tax treaties, exemptions and freezes currently applying in municipalities throughout the State. The study has been completed.

The State Auditor General completed a review in 2007 of the fiscal health of the various locally administered defined benefit pension plans covering Rhode Island municipal employees. Twenty-five Rhode Island communities have created 37 pension plans, which they administer for their employees. The State Auditor General identified 21 pension plans administered by 15 Rhode Island municipalities as underfunded. Of these 21 plans, 7 were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. Total assets collectively held by these 37 pension plans were reported by the State Auditor General as being approximately \$1.3 billion as of June 30, 2006. The collective unfunded actuarial liability for future benefits under these locally administered plans was approximately \$1.6 billion as of the actuarial valuation referenced in their June 30, 2006 financial statements. The State Auditor General made a number of recommendations in its July 2007 report to improve the funded status of these plans and also recommended that new employees participate in the State administered Municipal Employee's Retirement System.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. This phase-out was completed as scheduled. Local communities are to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The final FY 2007 budget provided that a fixed dollar amount (\$64.7 million) would be distributed as general revenue sharing. The FY 2008 budget as enacted provided a general revenue sharing appropriation of \$65.1 million. Midway through FY 2008, the Governor proposed and the General Assembly enacted a \$10 million reduction in general revenue sharing. The lower general revenue sharing appropriation of \$55.1 million was continued into FY 2009. Despite these delays and proposed freezes, the local reduction in the levy on inventories continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and as enacted for FY 2009, the first \$6,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities are 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.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. A number of legislative, executive, or collaborative efforts have been made to refine the commitment and strategy for financing local education into the future. Thus far, there has been no strategy confirmed by a statutory scheme specifying a precise method of determining entitlements in future years. The FY 2009 Enacted Budget includes \$690.4 million in school operations aid. The General Assembly also authorized additional revenues generated from video lottery operations to be dedicated to the Permanent School Fund, a fund which is established by the Constitution to benefit schools but previously had relatively small annual resources. These resources are to be allocated in the same proportion as state education aid. The amount to be distributed in FY 2009 is capped at \$13.6 million.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled \$18.1 million. The FY 2009 Enacted Budget provides \$57.0 million for this category of aid, an increase of over 214 percent since FY 1997. A related program will provide approximately \$2.8 million in FY 2009 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the motor vehicle excise tax reimbursement, general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2008 supplemental budget included a \$10.0 million reduction in the general revenue sharing funds distributed to local governments, and this lower level was continued in FY 2009. The FY 2008 final Budget included \$55.1 million for this program. The Motor Vehicle Excise Tax Reimbursement program was funded at \$139.6 million in the FY 2009 Enacted Budget. In order to maintain funding at that level rather than provide the supplemental appropriation which would otherwise be required, the Governor recommended that local governments be reimbursed at a rate of 98 percent in FY 2009 and thereafter.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2008 Budget and FY 2009 Enacted Budget includes \$27.8 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 2009 Enacted Budget to fund entitlements for seven communities. Of these seven communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes 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 \$9.2 million for FY 2009.

Principal Governmental Services

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

and appropriated annually by the General Assembly. The following paragraphs describe the major functions of State government.

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including, 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, taxation, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, labor relations and public safety. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, as well as building code administration. During the 2005 Session of the General Assembly, the State Lottery Commission was abolished and the Lottery became a division within the Department of Administration.

Department of 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, Motor Vehicles, Child Support Enforcement, Lottery Commission, and the Office of Municipal Affairs.

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

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

Human Services

Human Services includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs, care of the disabled by the Department of Mental Health, Retardation and Hospitals, child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services, and financial assistance, health care and social services provided by the Department of Human Services. The FY 2007 budget

included the Office of Health and Human Services, a separate department which will coordinate the human services functions through a secretariat.

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

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

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

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

Education

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

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

Board of Governors for Higher Education. The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for higher education in the State, including a comprehensive capital development program. In addition, the Board holds title to all public higher education

institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education.

Public Safety

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

During the 2008 Session of the General Assembly, the Department of Public Safety was created. The following agencies have been 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.

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 eight separate facilities and associated support services. Within Community Corrections are Probation and Parole, the Home Confinement Unit, a Risk Assessment Unit and the Furlough Program. Also included in the Department of Corrections budget, but with independent decision-making authority, is the State Parole Board.

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

Natural Resources

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

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

Transportation

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

The Intermodal Surface Transportation Fund is supported by the State's 30 cents per gallon motor fuel tax. These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs. The 30 cents per gallon motor fuel tax is allocated as follows: 18.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 7.25 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.0 cents to the General Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Department of Economic Development at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. It is the State's expectation that such "GARVEE" financing will be completed in three series over a period of six years. The first series, in the amount of \$216,805,000, was issued on November 25, 2003. The second series, in the amount of \$184,620,000, was issued on March 2, 2006. Given the magnitude of the projects and recent construction inflation, the projects collectively have cost significantly more than originally expected, which cost increases are likely to continue until such projects are completed. To the extent costs are higher, funding from the annual State and Federal Highway Construction Assistance Programs would be available as a source of funding. This could displace other planned projects.

In order to address possible future reductions in federal highway funding and the State's aging transportation infrastructure, the Governor formed in March 2008 a Blue Ribbon Panel for Transportation Funding. The Panel has been assigned the task of reviewing the State'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 to identify possible options for future funding.

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*. 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.

In September 2008 in anticipation of the implementation of GASB Statement 45, "*Other Post Employment Benefits*" the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2005 was determined to be approximately \$643.6 million, including \$580.1 million for State employees, \$ 51.0 million for State Police, \$8.5 million for the State's share for teachers, \$3.9 million for Legislators, and \$76 thousand for Judges. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2008, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 6.01%, 30.27%, .04%, 18.63% and .08% respectively. The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liabilities total \$364.7 million using a 8.25% rate of return, and \$531.9 million using a 5.0% rate of return. For FY 2009, the plan is being funded on an actuarial basis, and the State is contributing on the basis of interim rates from an actuarial valuation as of June 30, 2005 performed in January 2008. Interim rates of 3.86%, 20.6%, 0.05%, 14.61% and 0.09% have been charged since July 2008 on a payroll basis for State Employees, State Police, Teachers, Legislators and Judges. The actuary is in the process of preparing the valuations as of June 30, 2006 and June 30, 2007 for use in FY 2009 and FY 2010, and the State expects the FY 2009 rate to be higher than the amount being charged. The State intends to adjust the rate for FY 2009 to be in compliance.

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 revenue expenditures over expected revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it shall provide the necessary additional revenue to cover such appropriations. The Governor may veto legislative appropriations bills. However, the Governor does not have line-item veto authority. The 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 second Tuesday in January. Supplemental appropriations by the General Assembly must be supported by additional revenues and are subject to the Constitutional limitation on State expenditures discussed below.

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

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

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of General Fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The FY 2007 budget reserve account balance was approximately \$78.6 million. This reflects an appropriation by the General Assembly to a transfer of \$19.4 million to the General Fund surplus due to actual revenue collections for FY 2007 being less than enacted, potentially causing a deficit in the General Fund. The Budget Reserve Fund 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 Governor's FY 2008 revised budget provided for an appropriation of \$19.4 million to repay the transfer made in 2007 and the actual balance of the Budget Reserve Fund at the end of FY 2008 was \$103.1 million reflecting full funding. For FY 2008, the Governor will be requesting an appropriation in the amount of the FY 2008 deficit, currently estimated at \$33.6 million in the State Controller's Preliminary Report for FY 2008 issued August 29, 2008.

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 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 will, beginning on July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent 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 to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2009, the spending would be limited to 97.8 percent of revenues and the budget reserve fund is capped at 3.4 percent of resources.

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.

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 Affairs is responsible for the preparation of fiscal notes for bills affecting cities and towns.

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

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

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

The General Treasurer is responsible for the investment of certain funds and accounts of the State on a day-to-day basis. The State treasury balance is determined daily. The State is responding to the events occurring in the financial markets in 2008 and is taking actions to protect the assets invested on a daily basis.

The State’s cash equivalent type investments include funds invested with The Reserve – U.S. Government Fund, which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. There were three State funds that were invested in The Reserve – U.S. Government Fund. The date redemptions were suspended, the Lottery had approximately \$21.6 million invested, the Temporary Disability Insurance Fund had \$34.1 million invested, and the General Fund had \$6.8 million. The Reserve has indicated that the U.S. Government Fund will be liquidated but cannot estimate when distributions to investors will be made. The Office of the General Treasurer expects to receive full redemption of shares in The Reserve – U.S. Government Fund. This situation could impact the timing of the Lottery’s payments to the State’s General Fund, but State officials believe it should not otherwise impact Lottery operations or the operations of any other State agency.

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 is additionally directed to review annually all capital development programs of the State to determine: (a) the status of such programs; (b) whether funds are being properly expended; (c) completion dates; and (d) expended and unexpended fund balances. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2007 reflect audited revenues.

Major Sources of State Revenue

Tax Revenues: Approximately 66.9 percent of all taxes and departmental receipts in the preliminary FY 2008 revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 56.0 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 base upon which appropriations are made.

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

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

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified

rehabilitation expenditures made in the substantial “rehabilitation of a certified historic structure.” To qualify, such expenditures must be made on structures that are “either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner.” The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. The Rhode Island Historical Preservation and Heritage Commission has reported that 176 projects utilizing the historic tax credit were completed as of April 2008 with a total tax credit value of \$216.5 million (excluding approximately \$24.5 million of such tax credits relating to the development of the Masonic Temple that were extinguished in a transaction involving the Rhode Island Economic Development Corporation) and another 129 projects are planned or currently underway worth an estimated tax credit value of approximately \$273.3 million. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the personal income tax liability of a taxpayer.

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

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

In the 2004 Session, the General Assembly approved several of Governor Carcieri’s initiatives with regard to the collection of taxes already owed to the State. In particular, the General Assembly passed legislation that requires a letter of good standing from the Division of Taxation prior to the issuance or renewal of a professional license or a motor vehicle operator’s license or registration. In addition, the Governor proposed, and the General Assembly concurred, to repeal several tax credits that were not cost effective. The tax credits repealed included 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 the Governor’s recommendation to require the withholding of income tax against all distributions to nonresident shareholders in Rhode Island subchapter S Corporations and limited liability companies. Finally, the General Assembly instituted a Rhode Island refundable earned income tax credit equal to 5.0 percent of the federal refundable earned income tax credit.

In the 2005 Session, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 5.0 percent to 10.0 percent. In addition, the General Assembly concurred with Governor Carcieri’s proposed repeal of the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the Governor’s initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond. The 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 liability 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 available. The only credits available 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 will continue to decrease until the tax rate reaches 5.5 percent; in tax year 2007 the rate will be 7.5 percent, in tax year 2008 the rate will be 7.0 percent, in tax year 2009 the rate will be 6.5 percent, in tax year 2010 the rate will be 6.0 percent and in tax year 2011 and thereafter the rate will 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, specifically subchapter S corporations, limited liability partnerships, and limited liability corporations may utilize the credit. This tax credit is discussed in more detail below under "Tax Revenues – Business Corporation Tax".

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.

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to \$356.2 million in 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"). The Economic Development Corporation bonds are expected to be issued in March 2009, and they will be 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, estimated at \$7.7 million, shall be deposited in a restricted receipt account and shall also be dedicated to the reimbursement of the historic tax credits taken. The FY 2009 Enacted revenue estimate, therefore, does not reflect a reduction for historic structure tax credits as they will be paid from the funds authorized by the General Assembly.

In addition to the reform of the State's Historic Preservation Tax Credit program, the 2008 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.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled \$1.073 billion, or 31.3 percent, of the State's preliminary FY 2008

total general revenues. Preliminary FY 2008 personal income tax collections rose in dollar amount and decreased in the share of total general revenues from FY 2007.

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

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

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

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

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 voluntary collecting and remitting sales tax for sales into Rhode Island even though they do not have a legal requirement to do so.

In the 2007 Session, the General Assembly enacted a reduction to the initial affordable energy fee to be charged on the gross receipts from the sales and use of heating fuel other than natural gas and electricity from 2.0 percent to 0.5 percent. The Affordable Energy Fund was established in FY 2007 legislation and is to be financed by the affordable energy fee which is comprised of a percentage of the public service corporation tax on electricity and gas as well as a percentage of the sales and use tax on heating oil. The credit of the amount of the fee due and paid to the affordable energy fund against the gross receipts tax for the sales and use of heating fuel as well as the fee

itself was to go into effect on July 1, 2007. The date the fee and credit were to become effective was pushed out to January 1, 2009. The General Assembly enacted a schedule whereby the sales and use tax portion of the affordable energy fee was to be equal to 0.5 percent of gross receipts from the sales and use of heating fuel, effective January 1, 2009, and was to increase by 0.5 percentage points each January until it reached 2.0 percent of gross receipts from the sales and use of heating fuel on January 1, 2012 and was to remain at that rate thereafter.

In 2008, the Assembly repealed the Comprehensive Energy Conservation, Efficiency and Affordability Act legislation passed by the 2006 Assembly that created the Affordable Energy Fund.

The sales and use tax accounted for approximately \$845.4 million, or 24.7 percent, of the State's preliminary FY 2008 total general revenues. Preliminary FY 2008 final sales and use tax collections decreased in dollar terms and fell in share of total general revenues from FY 2007.

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, 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 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 Innovative 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.

The 2008 General Assembly amended the 2006 Innovative 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.

The business corporation tax totaled approximately \$151.4 million, or 4.4 percent, of the State's preliminary FY 2008 total general revenues. Preliminary FY 2008 final business corporations tax collections increased in dollar terms but decreased in the share of total general revenues from FY 2007.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the mentally retarded. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents. From January 1, 2008 through September 30, 2011, the health care provider assessment on residential facilities for the mentally retarded 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 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the Governor recommended reducing the nursing homes labor costs principal payment by \$5.0 million in FY 2009, which lowers their payments of the 5.5 percent provider tax. The Assembly adopted the Governor's recommendation to decrease total payments to nursing homes by \$57.6 million further decreasing payments generated from the 5.5 percent provider tax.

The health care provider assessment accounted for approximately \$53.4 million, or 1.6 percent, of the State's preliminary FY 2008 total general revenues. The dollar amount increased for the health care provider assessment between preliminary FY 2008 and FY 2007. Over the same period, the health care provider assessment increased in the share of total general revenues.

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.

In the 2006 Session, the General Assembly enacted a reduction to the initial affordable energy fee to be charged on the gross receipts of gas and electric companies for the public service corporation tax from 1.0 percent to 0.25 percent. The Affordable Energy Fund was established in FY 2007 legislation and is to be financed by the affordable energy fee, which is comprised of a percentage of the Public Service corporation tax on electricity and gas as well as a percentage of the sales and use tax on heating oil. The credit of the amount of the fee due and paid to the affordable energy fund against the public service corporation tax for gas and electric companies as well as the fee itself was to go into effect on July 1, 2007. The date the fee and credit were to become effective was pushed out to January 1, 2009. The General Assembly enacted a schedule whereby the public service corporation tax portion of the affordable energy fee was to be equal to 0.25 percent of the public service corporation tax on electricity and gas, effective January 1, 2009, and was to increase by 0.25 percentage points each January until it reached 1.0 percent of the Public Service Corporation Tax on electricity and gas on January 1, 2012 and was to remain at that rate thereafter.

In 2008, the Assembly repealed the Comprehensive Energy Conservation, Efficiency and Affordability Act legislation passed by the 2006 Assembly that created the Affordable Energy Fund. Utilities were to deposit 0.25 percent of gross income into the fund, ramping up to 1.0 percent over four years, which they would offset by tax credits equal to the amounts paid.

The public service corporation tax accounted for approximately \$99.4 million, or 2.9 percent, of the State's preliminary FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between preliminary FY 2008 and FY 2007.

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

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 for tax year 2009.

The insurance companies' gross premiums tax accounted for approximately \$68.0 million, or 2.0 percent, of the State's preliminary FY 2008 total general revenues. Both the dollar amount and the share of total general revenues increased between preliminary FY 2008 and FY 2007.

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 were subject to the tax, as of January 1, 1998.

The 1994 General Assembly passed legislation creating passive investment companies and exempting said companies from the financial institutions excise tax. A passive investment company is one with five or more full-time equivalent employees that maintain offices in Rhode Island and whose activities are limited to the maintenance and management of intangible investments such as securities, accounts receivable, patents, trademarks and similar intellectual properties

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

In 1997, the General Assembly increased the investment tax credit for financial institutions from 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.

The financial institutions tax accounted for approximately \$1.8 million, or 0.1 percent, of the State's preliminary FY 2008 total general revenues. Both the dollar amount of collections and the share of total general revenues for the financial institutions excise tax between preliminary FY 2008 and FY 2007 decreased.

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 \$1.7 million, or .05 percent, of the State's preliminary FY 2008 total general revenues. The dollar amount of bank deposits taxes remained approximately the same and the share of total general revenues decreased from preliminary FY 2008 versus FY 2007.

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.

The estate tax accounted for approximately \$35.3 million, or 1.0 percent, of the State's preliminary FY 2008 total general revenues. The dollar amount of estate taxes increased and the share of total general revenues decreased in preliminary FY 2008 from FY 2007.

Cigarette Tax. The State's cigarette tax is comprised of a cigarette stamp tax, a cigarette floor stock tax, and a tax on the wholesale price of cigars, pipe tobacco, etc. The cigarette stamp tax generates 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. Finally, on July 1, 2004, it was increased by 75 cents to \$2.46 per pack of 20 cigarettes. The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past five years, although not as frequently as the cigarette stamp tax. On July 1,

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

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

The cigarette tax accounted for approximately \$114.7 million, or 3.3 percent, of the State's preliminary FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the cigarette tax between preliminary FY 2008 and FY 2007.

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

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

The transfer of the motor fuel tax to the General Fund accounted for approximately \$4.5 million, or 0.1 percent, of the State's preliminary FY 2008 total general revenues. The dollar amount of the motor fuel tax transfer decreased while its share of total general revenues remained constant between preliminary FY 2008 and FY 2007.

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

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

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

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

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.

Other taxes accounted for approximately \$72.8 million, or 2.1 percent, of the State's preliminary FY 2008 total general revenues. Preliminary FY 2008 other tax collections decreased in dollar terms and in share of total general revenues from FY 2007.

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

The hospital licensing fee was first enacted in 1994 and yielded \$77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of \$37.4 million annually for FY 1998, FY 1999 and FY 2000.

The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the 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 total impact of these changes was a revenue yield of \$65.7 million in FY 2001.

The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year, yielding \$56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the 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.

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.

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 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 March 15, 2008 were deposited into the general fund while fees paid on March 5, 2009 will be placed into a restricted receipt account.

A second category of departmental receipts is sales and services, which includes disproportionate share revenues collected on behalf of the State hospitals as well as revenues derived from the sale of vanity license plates. A third category of departmental receipts is fines and penalties such as interest and penalties on overdue taxes.

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

Departmental Receipts were approximately \$352.1 million, or 10.3 percent, of the State's total general revenue in preliminary FY 2008. Preliminary FY 2008 departmental receipts increased on both a nominal basis and as a share of total general revenues when compared to FY 2007.

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 State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Twin River and 800 at Newport Grand), provided that the facilities invest \$145.0 million in structural and operational upgrades and expansions within the next three years (\$125.0 million at Twin River and \$20.0 million at Newport Grand). The master contract for Twin River freezes the share of video lottery terminals at 28.85% and from additional video lottery terminals at 26% (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%.

Lottery transfers to the General Fund totaled \$354.3 million, which accounted for 10.3 percent of the State's total general revenues in preliminary FY 2008. The dollar amount of the lottery transfers to the General Fund increased between preliminary FY 2008 and FY 2007 as did the lottery transfers as a share of total general revenues.

The next largest component of Other Sources is the Other Miscellaneous category. In the 2007 Session, the General Assembly enacted legislation authorizing the Tobacco Settlement Financing Corporation to sell bonds with \$195 million in net proceeds to the State, with \$42.5 million allocated to the general fund in FY 2007 and \$124.0 million allocated to the general fund in FY 2008. The total amount of Other Miscellaneous monies received in preliminary FY 2008 was approximately \$182.9 million, which accounted for 5.3 percent of the State's preliminary FY 2008 total general revenues. For FY 2007, these amounts were \$67.5 million and 2.1 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was \$4.5 million in preliminary FY 2008.

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.

Unclaimed property transfers totaled \$15.4 million in preliminary FY 2008 and accounted for 0.4 percent of the State's total general revenues for preliminary FY 2008. The dollar amount of the unclaimed property transfer increased and its share of total general revenues remained the same between preliminary FY 2008 and FY 2007.

Restricted Receipts. In FY 2008, the State expended \$134.6 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 2008, the State expended \$1.941 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), a block grant; Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX is recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2008 to September 30, 2009, the rate is 52.59 percent. The rate for the prior year was 52.5 percent.

ECONOMIC FORECAST

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

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

At the May 2008 Revenue Estimating Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, dividends, interest and rent, the unemployment rate, the U.S. consumer price index, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables includes the relevant calendar years and covers the period from 2008 through 2013.

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its May 2008 meeting, forecasts were presented by *Moody's Economy.com*

and *Global Insight*. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

As reported at the May 2008 Revenue Estimating Conference (the “May 2008 Conference”), Rhode Island’s labor market began to feel the impact of the national economic slowdown at the end of CY 2007. The Rhode Island Department of Labor and Training (RI DLT) described the state’s latest labor market data with a focus on the recently revised employment data. Rhode Island’s unemployment rate remained above the national average for the eleventh straight month in March 2008. Between March 2007 and March 2008, employment losses occurred overall (–10,100) and in the following sectors: Manufacturing (–2,700) Professional and Business Services (–2,600); Construction (–1,800); Financial Activities (–1,800); and Accommodation & Food Services, Arts, Entertainment, & Recreation, Other Services, Government, and Wholesale Trade (–1,400 combined). The sectors experiencing year-over-year gains were Educational Services (+700); Health care & Social Assistance (+600); and Information Services (+300).

The principals agreed that total non-farm employment would decline from 494,700 jobs in FY 2007 to 489,000 jobs in FY 2008 to 485,000 in FY 2009. This loss of approximately 5,700 jobs in FY 2008 is about 12,200 less than forecasted in November 2007. In addition, the May 2008 Conference forecasted job losses in FY 2009 of approximately 4,000 jobs, or –0.8 percent growth, which is about 21,200 less than forecasted in November 2007. Further, forecasted job growth for FY 2010 of 2,500 jobs, or 0.5 percent, is 24,000 jobs less than forecasted in November 2007. The adopted growth rates for non-farm employment from FY 2011 and FY 2012 of 1.0 percent and 0.9 percent, respectively, represent slight upward revisions, 0.1 percent each year, from the November 2007 Conference. In May 2008, FY 2013 non-farm employment was revised downward by 0.1 percent relative to the growth rate of 0.8 percent adopted in November 2007. These employment numbers refer to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

In addition, Rhode Island’s unemployment rate is forecasted to increase to 5.5 percent in FY 2008 from 5.0 percent in FY 2007 and then increase again to 6.0 percent for FY 2009 and FY 2010. For the period FY 2011 through FY 2013, the unemployment rate is forecasted to decline consistently to 5.6 percent in FY 2011, 5.3 percent in FY 2012, and 5.1 percent in FY 2013.

The May 2008 Conference forecasted that growth in personal income peaked in FY 2007 and will slow through FY 2009 before accelerating in FY 2010 through FY 2011 before leveling off in FY 2012 and FY 2013. The May 2008 Conference estimates for personal income growth represented a sharp downward revision in FY 2007 through FY 2010 of 3.7 percent average annual growth when compared to the November 2007 forecast of 4.7 percent average annual growth. From FY 2011 through FY 2013 personal income growth is projected to increase modestly as compared to the November 2007 forecast. The revised consensus estimates for FY 2011 through FY 2013 yields average annual growth of 4.4 percent vs. 4.2 percent average annual growth adopted in November 2007.

The May 2008 Conference forecasted consumer price inflation to jump to 3.1 percent in FY 2008 from 2.6 percent in FY 2007 before receding to 2.5 percent in FY 2009. In FY 2010 and FY 2011, consumer price inflation bottoms out at 1.8 percent before rising to 2.0 percent in FY 2012 and 2.1 percent in FY 2013. The average CPI growth is 2.2 percent for the six year fiscal period from FY 2008 through FY 2013. Testimony provided by Moody’s Economy.com and Global Insight indicated that higher inflation due to unchecked energy prices and financial market problems could result.

The consensus economic forecast for the fiscal years 2008 to 2013 agreed upon by the conferees at the May 2008 Conference is shown in the following table. This consensus economic forecast reflects the belief that the national economy went into recession in December 2007 with households experiencing rapidly growing financial stress as indicated by the doubling of the dollar amount of household debt in delinquency or default between the first quarter of CY 2006 and CY 2008. This distress has eroded consumer confidence which has led to a pullback in consumer spending and a concomitant decrease in business spending and confidence. It was the consensus of the Conferees at the May 2008 Conference that this will depress economic growth in Rhode Island in both the near and intermediate term with recovery not taking root until the imbalances in the State’s housing market are corrected sometime in FY 2011.

The May 2008 Consensus Economic Forecast

Rates of Growth	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total Employment	-0.8%	-0.8%	0.5%	1.0%	0.9%	0.7%
Personal Income	3.5%	2.7%	3.8%	4.4%	4.5%	4.4%
Wage and Salary Income	2.0%	1.9%	3.4%	3.8%	4.0%	4.0%
Dividends, Interest and Rent	5.6%	4.0%	5.5%	6.6%	6.6%	5.7%
Nominal Levels						
U.S. CPI-U	3.1%	2.5%	1.8%	1.8%	2.0%	2.1%
Unemployment Rate	5.5%	6.0%	6.0%	5.6%	5.3%	5.1%
Ten Year Treasury Notes	4.2%	4.2%	5.0%	5.5%	5.5%	5.5%
Three Month Treasury Bills	3.2%	2.5%	3.7%	4.4%	4.4%	4.5%

Since the adoption of the May 2008 economic forecast, the State and the nation as a whole have experienced a more severe downturn than was forecasted. Rhode Island's unemployment rate reached 8.5% in August 2008, while the U.S. unemployment rate was 6.1%. The Revenue Estimating Conference which convenes at the end of October and early November 2008, will hear testimony from economists and will adopt a new forecast. This forecast will be the basis for, among other things, the revised FY 2009 revenue estimates and the FY 2010 revenue estimates.

REVENUE ESTIMATES

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

The General Assembly enacted the FY 2009 Budget in June 2008. The General Assembly's enacted FY 2009 budget is based on estimated general revenues of \$3.347 billion. Annual estimated general revenue growth for FY 2009 is -2.4 percent over preliminary FY 2008 collections. Estimated deposits of \$73.6 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2009 as a result of the constitutional funding formula which calculates annual contributions and the fund will be replenished for any FY 2008 withdrawal. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 98 percent of estimated revenues in FY 2008 and 97.8 percent of estimated revenues in FY 2009. The revenue estimates contained in the General Assembly's enacted FY 2009 budget are predicated upon the revenue estimates adopted at the May 2008 Consensus Revenue Estimating Conference (REC) and the General Assembly's changes to the adopted general revenues.

As noted above, the November 2008 Revenue Estimating Conference will revise revenues based upon a new economic forecast and actual revenue trends. Through September 2008, revenues received are lower than expectations. Personal income tax receipts experienced an adjusted base growth of -3.6% as opposed to enacted growth of 4.7%. Sales tax experienced growth of -2.0% as opposed to enacted growth of 2.1%.

Enacted FY 2009 Revenues

The General Assembly's enacted FY 2009 budget estimates general revenues of \$3.347 billion, a decrease of 2.4 percent from the preliminary FY 2008 level. The General Assembly's enacted FY 2009 budget is comprised of \$3.215 billion of revenue estimated at the May 2008 Revenue Estimating Conference and \$131.5 million of changes to these adopted estimates. The enacted FY 2009 revenue estimate assumes the State regains tax revenues in FY 2009 formerly lost from several taxes due to the historic structures tax credit which will be paid from the Historic Preservation Tax Credit Fund with proceeds from bonds to be issued by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a further discussion of the bonds to be issued to fund the Historic Preservation Tax Credit Fund.

The largest source of enacted FY 2009 general revenues is the Personal Income Tax, with estimated receipts of \$1.124 billion, \$3.6 million more than the May 2008 REC estimated for FY 2009. Personal Income Taxes are expected to comprise 33.6 percent of total general revenues in FY 2009. The \$3.6 million increase over the adopted estimate in Personal Income Tax collections is due to the Assembly's repeal of the foreign tax credit, a federal tax credit that was previously allowed to pass through to Rhode Island taxpayers. Relative to preliminary FY 2008 collections, enacted FY 2009 Personal Income Taxes are \$50.4 million greater, yielding a growth rate of 4.7 percent. The enacted FY 2009 Personal Income Taxes estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes.

Sales and Use Tax collections are enacted at a total \$863.1 million in FY 2009, an increase of \$300,000 from the FY 2009 estimate agreed upon at the May 2008 Revenue Estimating Conference. The \$300,000 increase in sales tax revenues is due to the repeal of the Comprehensive Energy Conservation, Efficiency and Affordability Act legislation passed by the 2006 General Assembly. This act included provisions that provided sales tax credits on the purchase of certain affordable energy items. The General Assembly's enacted FY 2009 estimate signifies growth of 2.1 percent over preliminary FY 2008 collections. Sales and Use Taxes are anticipated to contribute 25.8 percent to total general revenues in FY 2009.

Motor Vehicle operator license and vehicle registration fees are enacted to equal \$45.7 million in FY 2009 a decrease of \$132,452 from the May 2008 Conference estimate. This decrease is the result of the General Assembly's acceptance of the Governor's proposal to pay the refunds for the Unified Carrier Registration Act (UCRA) out of general revenue receipts rather than through a restricted receipt account. Relative to preliminary FY 2008 collections, the enacted FY 2009 estimate for Motor Vehicle licenses and fees is 6.1 percent less. Motor Carrier Fuel Use Taxes are enacted at \$1.2 million in FY 2009, the same level as adopted at the May 2008 Conference and 21.0 percent more than preliminary FY 2008 collections.

The other components of excise taxes, namely Cigarettes Taxes and Alcohol Taxes, remain at the levels adopted by the conferees of the May 2008 Conference. Cigarettes Taxes are enacted at \$114.5 million, a decrease of 0.2 percent from Cigarettes Taxes collected in preliminary FY 2008. Alcohol Taxes are enacted at \$11.1 million for FY 2009, a decrease of 0.4 percent from preliminary FY 2008 collections.

General Business Taxes represent 11.6 percent of total general revenue collections in the enacted FY 2009 budget. Business Corporation Tax revenues are enacted to yield \$161.0 million, an increase of 0.6 percent, or \$1,000,000 from the FY 2009 estimate agreed to at the May 2008 Conference. This increase is the result of the General Assembly lowering the authorization amount for the Incentives for Innovation and Growth Tax Credit from \$2.0 million to \$1.0 million. Business Corporations Tax collections are projected to be 6.3 percent higher than preliminary FY 2008 collections. Business Corporations Taxes are expected to constitute 4.8 percent of total general revenues in FY 2009. The enacted FY 2009 Business Corporations Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes.

Health Care Provider Assessments are enacted to be \$3.2 million lower than the levels adopted at the May 2008 Conference. This decrease is a result of the General Assembly accepting the Governor's proposal to reduce nursing homes labor costs principal payments by \$5.0 million and total payments to nursing homes by an additional

\$52.6 million. These reduced payments lower the gross revenue base upon which the 5.5 percent nursing home provider tax is applied.

Insurance Companies Gross Premiums Taxes are enacted at a total of \$77.8 million in FY 2009 and are forecasted to be 14.5 percent higher than preliminary FY 2008 collections. They will comprise 2.3 percent of total enacted general revenues in FY 2009. Enacted FY 2009 Insurance Premiums Taxes are higher than the May 2008 Conference estimate by \$10.8 million as a result of the General Assembly increasing the gross premiums tax rate for health maintenance organizations and any non-profit hospital or medical service corporations, excluding any business related to Title XIX of the Social Security Act, to 1.75 percent and extending the tax to dental service corporations. The enacted FY 2009 Insurance Companies Gross Premiums Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against insurance companies gross premiums taxes.

FY 2009 Financial Institution Taxes are enacted at the same level as was adopted at the May 2008 Conference. At a total of \$1.1 million, they represent less than 0.1 percent of total enacted general revenues in FY 2009. Relative to preliminary FY 2008 collections, the enacted FY 2009 level of Financial Institutions Taxes is 39.9 percent less. The enacted FY 2009 Financial Institutions Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes.

FY 2009 Bank Deposits Taxes are enacted at the level adopted at the May 2008 Conference, total \$1.7 million, and comprise 0.1 percent of total enacted general revenues. The enacted FY 2009 level of Bank Deposits Taxes yields a growth rate of -0.6 percent when compared to preliminary FY 2008 collections.

With respect to General Business Taxes, the enacted FY 2009 Public Utilities Gross Earnings Taxes are \$3.9 million greater than the adopted estimate agreed to at the May 2008 Conference. This increase is due to the repeal of the Comprehensive Energy Conservation, Efficiency and Affordability Act legislation passed by the 2006 General Assembly. This act created the Affordable Energy Fund which was to be financed by public utilities through their deposit of 0.25 percent to 1.0 percent of gross earnings. In exchange for these deposits, public utilities were to receive a dollar-for-dollar credit against their liabilities under the public utilities gross earnings tax. Enacted FY 2009 Public Utilities Gross Earnings Taxes are \$100.0 million and comprise 3.0 percent of total enacted general revenues. This enacted amount represents an increase of 0.6 percent over preliminary FY 2008 public utilities gross earnings tax collections.

Inheritance and Gift Taxes are enacted at \$38.0 million for FY 2009 which is the same level adopted at the May 2008 Conference. At this level, enacted FY 2009 Inheritance and Gift Taxes are expected to constitute 1.1 percent of total enacted general revenues. The enacted FY 2009 estimate for Inheritance and Gift Taxes is 7.5 percent more than preliminary FY 2008 collections. FY 2009 Realty Transfer Taxes are also enacted at the same level adopted at the May 2008 Conference. Thus, enacted Realty Transfer Taxes are \$10.9 million which represents growth of 6.6 percent from preliminary FY 2008 levels. Racing and Athletics Taxes are also enacted at the level adopted at the May 2008 Conference. This estimate represents a decline of \$212,860, or -7.6 percent, from preliminary FY 2008 collections. Total Racing and Athletics Taxes enacted for FY 2009 is \$2.6 million. The enacted total of all Other Taxes is 1.5 percent of total enacted general revenues in FY 2009.

Enacted FY 2009 departmental receipts are expected to generate \$106.5 million more than the level adopted at the May 2008 Conference for FY 2009. Including all of the General Assembly's enacted changes to departmental receipts yields total enacted departmental revenues of \$347.6 million for FY 2009. Enacted FY 2009 departmental receipts represent 10.4 percent of total enacted general revenues. Relative to preliminary FY 2008 departmental receipt collections, the enacted FY 2009 level of departmental receipts yields a growth rate of -1.3 percent. In the licenses and fees category of departmental receipts, \$111.2 million is expected as a result of the Assembly's proposal to re-institute the hospital licensing fee at 4.78 percent of 2007 net patient revenues for FY 2009.

The enacted FY 2009 departmental revenues figure includes the following initiatives that reflect a change from the estimates adopted at the May 2008 Conference for departmental receipts:

- \$78.0 million from reinstating the Hospital Licensing Fee for FY 2009;
- \$33.4 million from increasing the Hospital Licensing Fee rate of assessment to 4.78 percent and applying it to 2007 net patient revenues;
- \$1.4 million from increasing minimum fines for driving infractions to \$85;
- \$265,000 from increasing court costs to \$35 for good driving dismissals;
- \$210,000 in fees for a new class of State Police candidates;
- \$200,000 in indirect cost recoveries received from restricted accounts from converting newborn hearing and screening fees to a restricted receipt account;
- \$100,000 in cost recoveries from proposed restricted receipt accounts for the Energy Office;
- \$62,110 from increased auto body license fees;
- \$36,503 from a traffic control grant received by the Attorney General's Office;
- \$20,000 from an Olmstead grant
- a decrease of \$11,900 from discontinuing licensing of massage parlors;
- a decrease of \$275,000 from replacing the writ service with constable service;
- a decrease of \$1.7 million for converting the newborn hearing and screening fees to restricted receipts;
- a decrease of \$2.1 million for converting the demand side energy grant to restricted receipts; and
- a decrease of \$3.0 million as an adjustment to Slater Hospital's disproportionate share payment.

The Other Sources component enacted total of \$398.7 million in FY 2009 represents a decrease of 28.4 percent, or \$158.4 million, compared to preliminary FY 2008 Other Sources collections. Enacted Other Sources revenues are expected to comprise 11.9 percent of total enacted general revenues for FY 2009. The enacted FY 2009 estimate of Other Sources revenues is \$8.6 million more than the Other Sources estimate adopted at the May 2008 Conference. This \$8.6 million increase is solely attributable to the Other Miscellaneous Revenues category and is the result of increased transfers from the Rhode Island Resource Recovery Corporation and the Rhode Island Health & Educational Building Corporation.

The Assembly's enacted FY 2009 budget for Other Miscellaneous Revenues is \$163.5 million lower than the preliminary FY 2008 level, a decrease of 89.4 percent. This decrease is due in large part to the inclusion of tobacco securitization proceeds worth \$124.0 million in FY 2008 that do not repeat in FY 2009. Other Miscellaneous Revenues are enacted at \$19.4 million in FY 2009, amounting to 0.6 percent of all general revenues.

Within the Gas Tax Transfer component, the Assembly's enacted FY 2009 budget shows no change from the FY 2009 level adopted at the May 2008 Conference. The Gas Tax Transfer is enacted at \$4.6 million, comprising 0.1 percent of total enacted general revenues in FY 2009. Relative to the preliminary FY 2008 transfer, the enacted FY 2009 gas tax transfer is greater by 2.6 percent.

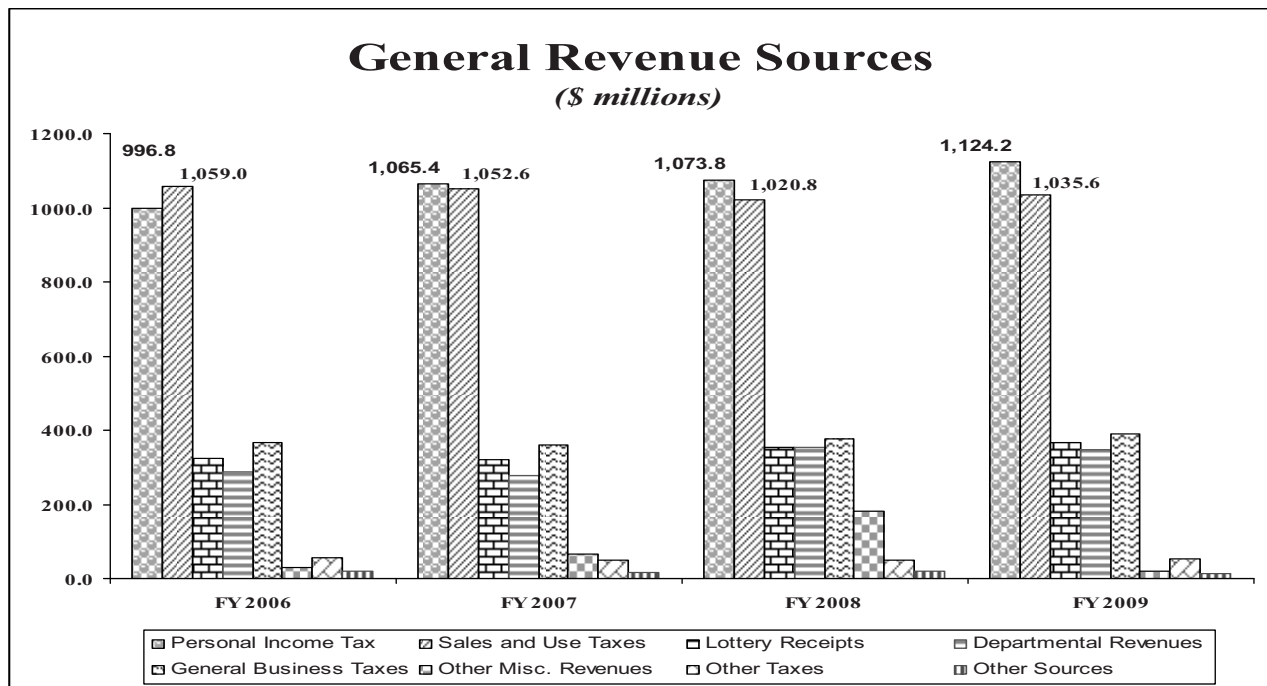
Within the Lottery category, the enacted FY 2009 budget is \$11.2 million greater than the preliminary FY 2008 transfer, an increase of 3.2 percent. The General Assembly enacted no changes from the May 2008 Conference estimate for Lottery. In FY 2009, the Lottery Transfer is enacted to be \$365.5 million and comprise 10.9 percent of total enacted general revenues.

In March 2008, UGTR, 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 million loan package to UGTR, Inc. and its parent companies to buy and expand the Twin River facility. A forbearance arrangement has been entered into with certain of its lenders that has been extended until January 31, 2009 but requires the owner of Twin River to meet a series of monthly benchmarks. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". If UGTR, Inc. files for bankruptcy or is placed in bankruptcy by its lenders, it is uncertain as to what, if any, impact such a bankruptcy would have with respect to the lottery revenues the State expects to receive from the operations of Twin River, which is expected to total \$254 million in FY 2009, especially since the technology providers, not the operator of the facility, own the video lottery terminals at Twin River

generating the lottery revenues. The State continues to closely monitor the situation and will need to approve any buyer of the Twin River facility.

The final category of general revenue receipts is the Unclaimed Property transfer. In FY 2009, this transfer is enacted to decrease by \$6.2 million, or 40.2 percent, from the preliminary FY 2008 transfer. The source of this decrease is primarily due to the non-recurrence of the demutualization proceeds that were received in FY 2008. The Unclaimed Property transfer is enacted to be \$9.2 million in FY 2009, and comprise 0.3 percent of all general revenues.

The chart below shows the sources of general revenues for the period FY 2006 – FY 2009. The values of the sources of general revenues for FY 2009 are based upon the General Assembly’s enacted FY 2009 budget. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2007 through 2009 and expenditures for the fiscal years 2007 through 2009. General Fund data on expenditures for FY 2007 is derived from the State’s Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditures for fiscal year 2008 reflect preliminary actual expenditures contained in the State Controller’s preliminary closing report for the fiscal year ended June 30, 2008. Expenditures for FY 2009 reflect the budget enacted by the General Assembly. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources.

General Fund revenues for FY 2007 reflect the audited actual revenues as reported by the State Controller. FY 2008 revenues reflect revenues reported in the State Controller’s preliminary closing report for the fiscal year ended June 30, 2008. FY 2009 revenues reflect the budget enacted by the General Assembly, including consensus estimates of the Revenue Estimating Conference adopted in May 2008. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*. The free surplus for FY 2007 reflects the transfer of \$19.4 million from the Budget Reserve and Cash Stabilization Account due to a revenue

shortfall which would have resulted in a deficit balance and the inability to reappropriate unexpended balances from FY 2007 as required by law. The free surplus for FY 2008 includes a modification from the preliminary closing reflecting the intent of the Governor to request an appropriation from the Budget Reserve and Cash Stabilization Account in the amount of the deficit, currently estimated to be \$33.6 million. The request will be made by the Governor when the General Assembly convenes in January 2009 in to order to maintain a balanced budget for FY 2008. The free surplus for FY 2009 shows the impact of the repayment of the Budget Reserve Fund transfer estimated at \$33.6 million to be made for FY 2008 and the need to develop a budget balancing plan totaling \$36.7 million that will reduce expenditures, increase revenues, or a combination of both.

General Revenues Receipts

	FY 2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Personal Income Tax	\$1,065,367,487	\$1,082,856,883	\$1,069,100,000	\$1,073,795,214	\$1,124,235,000
General Business Taxes					
Business Corporations	148,149,226	167,207,055	156,500,000	151,394,857	161,000,000
Public Utilities Gross Earnings	102,109,351	109,300,000	97,300,000	99,436,915	100,000,000
Financial Institutions	4,423,263	2,003,344	1,200,000	1,830,270	1,100,000
Insurance Companies	56,624,296	68,833,704	63,500,000	67,997,274	77,823,696
Bank Deposits	1,673,925	1,600,000	1,700,000	1,710,050	1,700,000
Health Care Provider Assessment	47,969,855	48,900,000	50,900,000	53,372,451	47,432,000
Sales and Use Taxes					
Sales and Use	873,203,817	908,723,500	853,400,000	845,365,207	863,100,000
Motor Vehicle	46,878,903	50,235,400	45,200,000	48,610,020	45,667,548
Motor Fuel	1,311,762	1,100,000	1,290,000	991,473	1,200,000
Cigarettes	120,480,817	112,500,000	118,100,000	114,674,498	114,500,000
Alcohol	10,705,751	11,100,000	10,900,000	11,140,941	11,100,000
Other Taxes					
Inheritance and Gift	34,683,979	30,100,000	38,000,000	35,333,925	38,000,000
Racing and Athletics	2,921,166	2,600,000	2,800,000	2,812,860	2,600,000
Realty Transfer	12,737,438	13,800,000	10,900,000	10,223,094	10,900,000
Total Taxes	2,529,241,036	2,610,859,886	2,520,790,000	2,518,689,049	2,600,358,244
Departmental Receipts	277,790,450	362,869,788	357,500,000	352,107,296	347,627,559
Taxes and Departmentals	2,807,031,486	2,973,729,674	2,878,290,000	2,870,796,345	2,947,985,803
Other Sources					
Gas Tax Transfer	4,704,602	4,685,000	4,535,000	4,513,745	4,630,000
Other Miscellaneous	67,471,487	140,279,158	180,970,000	182,892,012	19,400,000
Lottery	320,989,832	339,700,000	356,800,000	354,311,448	365,500,000
Unclaimed Property	11,456,513	14,600,000	15,500,000	15,387,030	9,200,000
Other Sources	404,622,434	499,264,158	557,805,000	557,104,235	398,730,000
Total General Revenues	\$3,211,653,920	\$3,472,993,832	\$3,436,095,000	\$3,427,900,580	\$3,346,715,803

Expenditures from All Funds

	FY2007	FY 2008	FY 2008	FY 2008	FY 2009
	Actual	Enacted	Revised	Prelim Actual	Enacted
General Government					
Administration(1)	\$596,273,691	\$629,525,399	\$638,554,974	\$617,454,126	\$560,884,005
Business Regulation	11,619,330	13,135,623	12,765,050	11,812,172	11,663,704
Labor and Training	446,997,207	459,385,094	502,524,339	499,662,133	484,805,942
Revenue(1)	233,996,210	256,364,161	241,755,281	254,603,219	249,139,675
Legislature	32,350,516	35,964,082	35,567,738	33,829,220	35,615,553
Lieutenant Governor	874,724	925,112	839,816	850,412	901,418
Secretary of State	7,397,017	6,066,356	6,173,694	6,819,947	7,403,864
General Treasurer	24,775,355	36,890,123	36,998,956	39,662,096	31,489,283
Board of Elections	4,392,090	2,024,108	1,921,275	1,926,492	2,175,218
Rhode Island Ethics Commission	1,222,289	1,410,451	1,330,460	1,343,029	1,405,309
Governor's Office	4,738,217	4,921,696	4,773,728	4,957,880	5,158,611
Commission for Human Rights	1,247,126	1,388,940	1,322,567	1,340,713	1,382,968
Public Utilities Commission	5,473,869	7,096,087	6,938,452	5,433,284	6,869,214
Rhode Island Commission on Women	98,629	108,203	105,930	105,953	107,208
Subtotal - General Government	\$1,371,456,270	\$1,455,205,435	\$1,491,572,260	\$1,479,800,676	\$1,399,001,972
Human Services					
Office of Health & Human Services	640,980	6,578,965	7,860,219	3,848,199	14,787,081
Children, Youth, and Families	311,770,978	232,749,891	234,551,885	229,231,683	209,941,252
Elderly Affairs	35,951,870	37,036,136	36,200,235	34,383,269	33,579,723
Health	104,636,981	125,224,331	133,517,746	126,540,557	125,977,776
Human Services	1,574,255,610	1,811,144,472	1,802,051,877	1,848,215,879	1,775,282,036
Mental Health, Retardation, & Hospitals	481,493,544	498,887,743	476,254,607	489,441,693	457,490,509
Governor's Commission on Disabilities	845,947	968,079	795,912	541,109	911,985
Commission On Deaf and Hard of Hearing	306,372	387,654	326,595	288,791	368,807
State Council on Developmental Disabilities(3)	421,932	461,111	405,702	395,284	450,543
Office of the Child Advocate	551,198	560,757	522,070	485,449	558,800
Office of the Mental Health Advocate	385,295	424,343	405,546	419,127	431,171
Subtotal - Human Services	\$2,511,260,707	\$2,714,423,482	\$2,692,892,394	\$2,733,791,040	\$2,619,779,683
Education					
Elementary and Secondary	1,067,364,090	1,096,216,347	1,105,262,743	\$1,091,920,831	1,145,530,047
Higher Education - Board of Governors(2)	734,735,310	770,836,024	781,399,952	208,997,452	819,589,009
RI Council on the Arts	2,922,282	6,484,097	4,570,637	2,934,388	3,275,655
RI Atomic Energy Commission	1,087,486	1,481,463	1,625,863	1,474,557	1,532,900
Higher Education Assistance Authority	23,939,108	29,350,404	29,707,831	25,921,958	26,649,807
Historical Preservation and Heritage Comm.	2,209,943	2,603,164	2,526,981	2,195,180	2,323,114
Public Telecommunications Authority	2,395,158	2,163,310	2,050,231	2,114,569	2,132,366
Subtotal - Education	\$1,834,653,377	\$1,909,134,809	\$1,927,144,238	\$1,335,558,935	\$2,001,032,898

Expenditures from All Funds

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Public Safety					
Attorney General	21,914,608	23,903,316	23,364,400	\$22,873,247	23,731,514
Corrections	170,117,176	197,210,155	194,535,134	193,334,191	186,497,239
Judicial(4)	91,679,516	96,997,828	95,774,472	94,506,544	97,349,720
Military Staff	32,572,998	24,960,095	38,224,846	23,773,584	28,419,792
Public Safety(5)	71,170,055	79,070,796	72,341,249	73,150,506	87,825,459
Fire Safety Code Board of Appeal & Review(1)	-	303,435	289,830	-	-
Office Of Public Defender	8,778,424	9,746,784	9,374,872	9,302,800	9,716,729
Subtotal - Public Safety	\$396,232,777	\$432,192,409	\$433,904,803	\$416,940,872	\$433,540,453
Natural Resources					
Environmental Management	76,027,147	85,417,860	86,893,013	69,941,523	88,958,152
Coastal Resources Management Council	3,897,901	4,508,659	5,702,171	5,474,936	5,236,662
Water Resources Board	1,792,983	2,385,081	2,130,805	1,635,667	1,478,002
Subtotal - Natural Resources	\$81,718,031	\$92,311,600	\$94,725,989	\$77,052,126	\$95,672,816
Transportation					
Transportation	368,686,783	374,140,874	342,701,694	300,064,348	370,026,380
Subtotal - Transportation	\$368,686,783	\$374,140,874	\$342,701,694	\$300,064,348	\$370,026,380
Total(2)	\$6,564,007,945	\$6,977,408,609	\$6,982,941,378	\$6,343,207,997	\$6,919,054,202

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Administration.

(2) Higher Education expenditures for FY 2008 are understated and do not reflect audited expenditures from the Board of Governors. Actual FY 2008 expenditures will be available upon completion of audit.

(3) Developmental Disabilities Council included in the Board of Governors for Higher Education effective FY 2009.

(4) Judicial includes Judicial Tenure and Discipline.

(5) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission.

Expenditures from General Revenues

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
General Government					
Administration(1)	\$464,766,988	\$501,608,297	\$524,643,296	\$520,058,765	\$461,660,272
Business Regulation	10,859,698	11,475,916	10,896,429	10,333,679	10,118,066
Labor and Training	7,146,778	6,583,162	6,418,535	6,377,174	6,513,092
Revenue(1)	34,527,088	38,575,957	35,165,844	35,086,502	37,849,916
Legislature	30,941,664	34,440,361	34,116,203	32,377,685	34,099,202
Lieutenant Governor	874,724	925,112	839,816	850,412	901,418
Secretary of State	6,150,445	5,036,136	5,042,689	5,488,114	6,307,144
General Treasurer	2,636,773	2,908,550	2,773,767	2,668,892	2,563,767
Board of Elections	3,625,842	1,437,214	1,289,947	1,315,331	1,512,874
Rhode Island Ethics Commission	1,222,289	1,410,451	1,330,460	1,343,029	1,405,309
Governor's Office	4,672,436	4,921,696	4,773,728	4,957,880	5,158,611
Commission for Human Rights	987,833	984,197	951,677	951,872	991,659
Public Utilities Commission	499,163	661,246	647,628	475,034	-
Rhode Island Commission on Women	98,629	108,203	105,930	105,953	107,208
Subtotal - General Government	\$569,010,350	\$611,076,498	\$628,995,949	\$622,390,322	\$569,188,538
Human Services					
Office of Health & Human Services	250,294	307,152	387,176	363,333	5,223,297
Children, Youth, and Families	189,391,302	149,249,856	151,976,515	151,279,154	137,133,720
Elderly Affairs	18,809,664	18,604,205	17,389,636	16,969,063	16,071,786
Health	31,490,512	34,487,126	31,169,612	29,985,420	32,281,674
Human Services	703,752,922	811,185,218	793,009,661	811,658,229	767,224,135
Mental Health, Retardation, & Hospitals	238,316,375	243,459,229	234,197,334	241,952,595	219,361,864
Governor's Commission on Disabilities	518,631	535,775	350,626	350,480	413,651
Commission of the Deaf and Hard of Hearing	301,850	370,154	326,595	289,412	368,807
Office of the Child Advocate	513,524	520,757	484,569	445,443	519,657
Office of the Mental Health Advocate	385,295	424,343	405,546	419,127	431,171
Subtotal - Human Services	\$1,183,730,369	\$1,259,143,815	\$1,229,697,270	\$1,253,712,256	\$1,179,029,762
Education					
Elementary and Secondary	888,448,123	909,429,659	906,470,019	908,146,667	931,218,471
Higher Education - Board of Governors	189,489,620	196,068,047	189,983,048	189,982,771	179,856,018
RI Council on the Arts	2,112,363	2,777,644	2,698,994	2,111,963	2,094,847
RI Atomic Energy Commission	827,654	819,869	798,827	834,101	824,470
Higher Education Assistance Authority	6,708,495	11,019,684	10,219,792	10,219,792	7,323,051
Historical Preservation and Heritage Comm.	1,615,594	1,577,792	1,487,312	1,494,562	1,348,825
Public Telecommunications Authority	1,312,264	1,363,654	1,316,196	1,316,196	1,365,306
Subtotal - Education	\$1,090,514,113	\$1,123,056,349	\$1,112,974,188	\$1,114,106,052	\$1,124,030,988

Expenditures from General Revenues

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Public Safety					
Attorney General	\$19,799,874	\$21,335,305	\$20,626,429	\$20,550,412	\$21,212,039
Corrections	155,796,271	187,954,532	184,551,095	187,742,884	178,623,504
Judicial(2)	82,039,511	84,964,917	82,799,916	82,799,851	85,000,000
Military Staff	2,533,905	2,563,864	2,497,995	2,320,832	3,739,948
Public Safety(3)	63,975,375	63,728,810	58,582,653	62,946,520	66,828,094
Fire Safety Code Board of Appeal & Review(1)	-	303,435	289,830	-	-
Office Of Public Defender	8,564,734	9,324,951	9,015,956	9,030,938	9,468,259
Subtotal - Public Safety	\$332,709,670	\$370,175,814	\$358,363,874	\$365,391,437	\$364,871,844
Natural Resources					
Environmental Management	38,071,852	36,413,000	34,213,462	36,032,812	35,779,384
Coastal Resources Management Council	2,076,370	1,879,559	1,940,645	1,985,139	1,877,703
Water Resources Board	1,648,213	1,893,081	1,628,970	1,226,089	1,378,002
Subtotal - Natural Resources	\$41,796,435	\$40,185,640	\$37,783,077	\$39,244,040	\$39,035,089
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	\$3,217,760,937	\$3,403,638,116	\$3,367,814,358	\$3,394,844,107	\$3,276,156,221

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY2009 Fire Code Board was moved to Department of Administration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission.

Expenditures from Federal Funds

	FY2007	FY 2008	FY 2008	FY 2008	FY 2009
	Actual	Enacted	Revised	Prelim Actual	Enacted
General Government					
Administration(1)	\$46,562,576	\$45,581,896	\$50,071,381	\$39,828,799	\$33,952,039
Business Regulation	43,291	51,742	201,742	114,130	-
Labor and Training	29,931,444	28,124,845	35,517,258	28,883,497	35,594,755
Revenue(1)	1,147,680	1,335,145	2,128,997	1,470,903	1,894,095
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	976,109	586,744	572,503	911,443	541,139
General Treasurer	476,081	1,916,146	1,150,186	799,601	1,170,081
Board of Elections	766,248	586,894	631,328	611,162	662,344
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	259,293	404,743	370,890	388,839	391,309
Public Utilities Commission	92,650	100,124	97,097	70,662	100,547
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$80,255,372	\$78,688,279	\$90,741,382	\$73,079,036	\$74,306,309
Human Services					
Office of Health & Human Services	93,852	5,826,265	7,158,672	3,168,914	7,593,011
Children, Youth, and Families	120,424,524	80,211,094	79,704,679	75,250,375	69,839,591
Elderly Affairs	12,057,604	13,056,931	12,945,599	11,980,485	12,257,937
Health	60,912,005	65,305,387	77,051,911	80,816,453	68,180,665
Human Services	867,561,431	989,435,533	1,000,247,417	1,028,830,375	999,808,193
Mental Health, Retardation, & Hospitals	240,445,805	243,971,014	234,903,609	241,728,740	222,757,014
Governor's Commission on Disabilities	162,175	181,692	194,380	77,450	189,769
Commission On Deaf and Hard of Hearing	4,522	17,500	-	(622)	-
State Council on Developmental Disabilities (4)	421,932	461,111	405,702	395,288	450,543
Office of the Child Advocate	37,674	40,000	37,501	40,006	39,143
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$1,302,121,524	\$1,398,506,527	\$1,412,649,470	\$1,442,287,464	\$1,381,115,866
Education					
Elementary and Secondary	\$174,313,591	\$178,395,910	\$189,172,713	\$175,708,363	\$191,008,411
Higher Education - Board of Governors(2)	2,871,077	3,526,446	5,300,814	4,924,539	3,646,277
RI Council on the Arts	653,685	706,453	671,643	612,251	741,355
RI Atomic Energy Commission	101,942	420,940	537,277	352,771	407,277
Higher Education Assistance Authority	8,846,030	12,612,204	12,366,402	8,610,380	12,550,536
Historical Preservation and Heritage Comm.	508,937	529,078	547,676	509,240	479,640
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$187,295,262	\$196,191,031	\$208,596,525	\$190,717,544	\$208,833,496

Expenditures from Federal Funds

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Public Safety					
Attorney General	\$1,274,491	\$1,379,464	\$1,392,517	\$1,298,123	\$1,263,609
Corrections	9,252,612	2,807,500	3,583,559	2,688,836	2,712,735
Judicial(3)	1,412,645	2,064,119	2,679,752	1,872,572	1,939,312
Military Staff	27,561,826	20,594,699	32,645,206	19,515,630	22,949,023
Public Safety(5)	1,999,004	5,521,399	8,082,107	5,957,636	6,232,120
Fire Safety Code Board of Appeal & Review(1)	-	-	-	-	-
Office Of Public Defender	213,690	421,833	358,916	271,861	248,470
Subtotal - Public Safety	\$41,714,268	\$32,789,014	\$48,742,057	\$31,604,658	\$35,345,269
Natural Resources					
Environmental Management	\$21,320,143	\$28,153,533	\$30,857,460	\$17,692,013	\$33,435,438
Coastal Resources Management Council	1,659,031	1,607,000	1,770,436	1,779,206	1,453,450
Water Resources Board	64,170	-	-	-	-
Subtotal - Natural Resources	\$23,043,344	\$29,760,533	\$32,627,896	\$19,471,219	\$34,888,888
Transportation					
Transportation	\$231,342,605	\$274,706,956	\$239,425,158	\$183,867,764	\$263,437,353
Subtotal - Transportation	\$231,342,605	\$274,706,956	\$239,425,158	\$183,867,764	\$263,437,353
Total(2)	\$1,865,772,375	\$2,010,642,340	\$2,032,782,488	\$1,941,027,685	\$1,997,927,181

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY2009 Fire Code Board was moved to Department of Administration.

(2) Higher Education expenditures for FY 2008 are understated and do not reflect audited expenditures from the Board of Governors. Actual FY 2008 expenditures will be available upon completion of audit.

(3) Judicial includes Judicial Tenure and Discipline.

(4) Developmental Disabilities Council included in the Board of Governors for Higher Education effective FY 2009.

(5) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission.

Expenditures from Restricted Receipts

	FY2007	FY 2008	FY 2008	FY 2008	FY 2009
	Actual	Enacted	Revised	Prelim Actual	Enacted
General Government					
Administration(1)	\$6,784,583	\$12,109,406	\$8,538,957	\$9,973,069	\$8,876,034
Business Regulation	716,341	1,607,965	1,666,879	1,364,361	1,545,638
Labor and Training	15,552,019	28,283,698	25,075,274	20,098,434	24,905,914
Revenue(1)	705,160	845,506	892,006	789,994	925,663
Legislature	1,408,852	1,523,721	1,451,535	1,451,538	1,516,351
Lieutenant Governor	-	-	-	-	-
Secretary of State	270,463	443,476	558,502	420,390	555,581
General Treasurer	21,474,117	31,772,287	32,835,018	35,987,392	27,502,060
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	(3,617)	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	4,882,056	6,334,717	6,193,727	4,887,588	6,768,667
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$51,789,974	\$82,920,776	\$77,211,898	\$74,972,766	\$72,595,908
Human Services					
Office of Health & Human Services	\$296,834	\$445,548	\$314,371	\$315,953	\$1,970,773
Children, Youth, and Families	1,767,022	1,753,941	2,250,556	2,159,755	1,757,941
Elderly Affairs	741,000	690,000	\$1,330,000	956,578	\$620,000
Health	12,204,993	25,403,142	25,166,813	15,692,703	25,486,027
Human Services	2,941,257	9,223,721	8,694,799	7,027,278	8,024,708
Mental Health, Retardation, & Hospitals	183,295	3,040,000	2,593,834	2,587,327	4,590,000
Governor's Commission on Disabilities	1,692	50,612	14,355	13,178	8,565
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$18,136,093	\$40,606,964	\$40,364,728	\$28,752,772	\$42,458,014
Education					
Elementary and Secondary	\$4,432,359	\$7,149,893	\$7,131,008	\$6,507,062	\$7,363,165
Higher Education - Board of Governors(2)	1,074,589	893,520	1,093,499	96,664	1,041,526
RI Council on the Arts	-	-	200,000	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	85,412	496,294	491,993	191,378	494,649
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$5,592,360	\$8,539,707	\$8,916,500	\$6,795,104	\$8,899,340

Expenditures from Restricted Receipts

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Public Safety					
Attorney General	\$678,356	\$973,547	\$940,574	\$867,559	\$980,866
Corrections	-	-	-	(61)	-
Judicial(3)	7,272,677	8,518,792	8,661,007	8,395,390	8,710,408
Military Staff	242,449	407,532	301,504	158,275	315,321
Public Safety(4)	1,905,648	1,639,043	1,469,162	1,103,585	434,000
Fire Safety Code Board of Appeal & Review(1)	-	-	-	-	-
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$10,099,130	\$11,538,914	\$11,372,247	\$10,524,748	\$10,440,595
Natural Resources					
Environmental Management	\$15,257,111	\$16,945,441	\$16,071,872	\$13,383,302	\$16,411,875
Coastal Resources Management Council	162,500	1,022,100	395,000	120,000	250,000
Water Resources Board	-	400,000	400,000	327,378	-
Subtotal - Natural Resources	\$15,419,611	\$18,367,541	\$16,866,872	\$13,830,680	\$16,661,875
Transportation					
Transportation	\$1,451,818	\$661,834	\$1,444,708	-\$160,669	\$1,447,246
Subtotal - Transportation	\$1,451,818	\$661,834	\$1,444,708	-\$160,669	\$1,447,246
Total(2)	\$102,488,986	\$162,635,736	\$156,176,953	\$134,715,401	\$152,502,978

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY200 to new Department of Revenue. In FY2009 Fire Code Board was moved to Department of Administration

(2) Higher Education expenditures for FY 2008 are understated and do not reflect audited expenditures from the Board of Governor Actual FY 2008 expenditures will be available upon completion of audit

(3) Judicial includes Judicial Tenure and Discipline

(4) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission

Expenditures from Other Funds

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
General Government					
Administration(1)	\$78,159,544	\$70,225,800	\$55,301,340	\$47,593,489	\$56,395,660
Business Regulation	-	-	-	-	-
Labor and Training	394,366,966	396,393,389	435,513,272	444,303,030	417,792,181
Revenue(1)	197,616,282	215,607,553	203,568,434	217,255,814	208,470,001
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	188,384	293,140	239,985	206,210	253,375
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	69,398	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$670,400,574	\$682,519,882	\$694,623,031	\$709,358,543	\$682,911,217
Human Services					
Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	188,130	1,535,000	620,135	542,403	1,210,000
Elderly Affairs	4,343,602	4,685,000	4,535,000	4,477,142	4,630,000
Health	29,471	28,676	129,410	45,972	29,410
Human Services	-	1,300,000	100,000	700,000	225,000
Mental Health, Retardation, & Hospitals	2,548,069	8,417,500	4,559,830	3,173,034	10,781,631
Governor's Commission on Disabilities	163,449	200,000	236,551	100,000	300,000
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$7,272,721	\$16,166,176	\$10,180,926	\$9,038,551	\$17,176,041
Education					
Elementary and Secondary (2)	\$170,017	\$1,240,885	\$2,489,003	\$1,558,748	\$15,940,000
Higher Education - Board of Governors(3)	541,300,024	570,348,011	585,022,591	13,993,478	635,045,188
RI Council on the Arts	156,234	3,000,000	1,000,000	210,175	439,453
RI Atomic Energy Commission	157,890	240,654	289,759	287,689	301,153
Higher Education Assistance Authority	8,384,583	5,718,516	7,121,637	7,091,785	6,776,220
Historical Preservation and Heritage Comm.	-	-	-	-	-
Public Telecommunications Authority	1,082,894	799,656	734,035	798,374	767,060
Subtotal - Education	\$551,251,642	\$581,347,722	\$596,657,025	\$23,940,249	\$659,269,074

Expenditures from Other Funds

	FY2007 Actual	FY 2008 Enacted	FY 2008 Revised	FY 2008 Prelim Actual	FY 2009 Enacted
Public Safety					
Attorney General	\$161,887	\$215,000	\$404,880	\$157,154	\$275,000
Corrections	5,068,293	6,448,123	6,400,480	2,902,534	5,161,000
Judicial(4)	954,683	1,450,000	1,633,797	1,438,736	1,700,000
Military Staff	2,234,818	1,394,000	2,780,141	1,778,845	1,415,500
Public Safety(5)	3,290,028	8,181,544	4,207,327	3,142,765	14,331,245
Fire Safety Code Board of Appeal & Review(1)	-	-	-	-	-
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$11,709,709	\$17,688,667	\$15,426,625	\$9,420,034	\$22,882,745
Natural Resources					
Environmental Management	\$1,378,041	\$3,905,886	\$5,750,219	\$2,833,397	\$3,331,455
Coastal Resources Management Council	-	-	1,596,090	1,590,590	1,655,509
Water Resources Board	80,600	92,000	101,835	82,199	100,000
Subtotal - Natural Resources	\$1,458,641	\$3,997,886	\$7,448,144	\$4,506,186	\$5,086,964
Transportation					
Transportation	\$135,892,360	\$98,772,084	\$101,831,828	\$116,357,253	\$105,141,781
Subtotal - Transportation	\$135,892,360	\$98,772,084	\$101,831,828	\$116,357,253	\$105,141,781
Total(3)	\$1,377,985,647	\$1,400,492,417	\$1,426,167,579	\$872,620,816	\$1,492,467,822

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY2009 Fire Code Board was moved to Department of Administration.

(2) Elementary and Secondary includes an estimated expenditure of resources from the Permanent School Fund which are available from video lottery terminal revenues starting in FY 2009.

(3) Higher Education expenditures for FY 2008 are understated and do not reflect audited expenditures from the Board of Governors. Actual FY 2008 expenditures will be available upon completion of audit.

(4) Judicial includes Judicial Tenure and Discipline.

(5) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission.

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 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 outyear expenditures will exceed revenues, and at times by a substantial amount. However, the State is required by the State Constitution to maintain a balanced budget. 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, Financial Controls and Budget Procedures" will be put into effect.

During the post audit for FY 2007, the Auditor General recommended several audit adjustments, including two adjustments to revenues which resulted in actual revenues being less than enacted estimates. In addition to the adjustments that impacted one agency on the expenditure side, there were several adjustments on the revenue side. The two major adjustments are described below due to their significance and the underlying assumptions for the adopted revenue estimates for FY2008 and FY2009.

The Auditor General suggested an audit adjustment totaling \$5,166,847, including \$4,224,273 for a possible tax refund and interest of \$942,574, relating to a court case involving American Power Conversion. On January 31, 2007, the State of Rhode Island District Court ruled on the case of American Power Conversion Corporation ("APC") vs. R. Gary Clark, Tax Administrator for the State of Rhode Island. The ruling by the court resolved the dispute between APC and the State involving the application of R.I.G.L. §44-43-8. This law sets forth a statutory scheme that permits an employee of a corporation to exclude, for State income tax purposes, any income gain or preference items realized from the sale, or other transfer, of securities or other instruments of the corporation. This tax advantage is only permitted in the years that the corporation is a "qualifying corporation". R.I.G.L. §44-43-8 sets forth certain annual employment growth requirements for State based full-time employees, which must be satisfied in order for an employer to be deemed a "qualifying corporation". If the requirements of the law are not met by the corporation, the corporation will lose its status as a "qualifying corporation", which will disallow the employees to receive such tax benefits, and the corporation shall be required to recapture and include in its Rhode Island tax liability an amount equal to 100% of the investment tax credits that it claimed against its Rhode Island business corporation tax liability during the previous ten year period. The State determined in 2002 that APC did not meet the annual employment growth requirements by failing to maintain the necessary level of full-time employees in Rhode Island each day of the year. As a result, APC was required by the State to recapture its investment tax credits for the prior ten year period. APC appealed the decision reached by the State to the Rhode Island District Court. The court determined that APC had met the threshold for annual growth and the number of State based full-time employees under R.I.G.L. §44-43-8 by rejecting the State's position that employment growth under the law is based upon employment level each day of the year. The court decision reversed the State's determination and allowed APC to continue as a "qualifying corporation", thus requiring the State to refund to APC the total amount resulting from the recapture of its investment tax credits for the period from 1992 to 2001. The Division of Taxation and APC have settled this issue and the impact is reflected in the actual revenue receipts for FY 2009.

The Auditor General also recommended recording a liability of \$19.0 million for a tax payment made in FY 2007 in error by a financial institution. Preliminary FY 2007 financial institution taxes collected were \$19.8 million more than the enacted FY 2007 estimate. The November 2007 Revenue Estimating Conference estimated that the refund was expected to be made in FY 2009, and adopted an estimate of negative \$19.0 million for FY2009 for the Financial Institutions tax which reflected that anticipated refund. The Auditor General post audit shifted that liability to FY 2007.

The free surplus for FY 2007 reflects the transfer of \$19.4 million from the Budget Reserve and Cash Stabilization Account due to a revenue shortfall which would have resulted in a deficit balance and the inability to reappropriate unexpended balances from FY 2007 as required by law. The transfer of \$19.4 million provided for \$3.6 million of reappropriations for the Judicial and Legislative branches of government and a free surplus of zero. The transfer took place after passage of legislation by the General Assembly to appropriate \$19.4 million from the Budget Reserve and Cash Stabilization Account.

The State Controller's preliminary FY 2008 closing report reveals that the State would end fiscal year 2008 with a \$33.6 million deficit if no action were taken. This is a result of revenues falling below enacted estimates by \$8.2 million and expenditures exceeding appropriations by \$27.0 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 plans to seek an appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at \$102.8 million at the end of FY 2008. It is the intent of the Governor to ask the General Assembly to act on this request in January 2009 when they convene. The repayment of the transfer would appear in the 2009 Supplemental Act to be submitted by the Governor.

As a result, the State Budget Office currently projects a deficit of \$36.7 million compared to the enacted FY 2009 budget. In November, 2008, the Revenue and Caseload Estimating Conference will be held to revise estimates for FY 2009 and reach consensus on the estimates for FY 2010. On November 15, 2008, the State Budget Office will issue its first quarter report which projects the year-end balance and incorporates those 2009 revenue and caseload estimates, as well as any other projected increases or decreases to spending in the departments. Among other initiatives, the FY 2009 enacted budget contained \$50.2 million of general revenue funded personnel savings and \$67 million of savings as a result of Medicaid reform. The personnel general revenue savings included \$16.8 million from elimination of vacancies as a result of retirements (\$30.5 million from all funds) and \$33.4 million of general revenue savings from matters subject to negotiation with the collective bargaining units of State employees (\$60.4 million from all fund sources). It is uncertain at this time whether all of such savings will be accomplished by these initiatives. The implementation of those two major initiatives, or other replacement savings plans, is critical to maintaining a balanced budget. The Administration has also implemented enhanced monthly departmental reporting and monitoring to address departmental expenditures. As a result of changes to the retiree health benefits effective October 1, 2008, the State has experienced an increased number of retirements. The Administration is monitoring the savings resulting from these vacated positions and has restricted hiring to only critical vacancies until a full assessment is performed on agencies organizational structures and projected spending levels. In planning for the FY 2010 budget process, in July 2009 the State Budget Office estimated the FY 2010 projected deficit to be \$84 million. This projected deficit will likely be larger given the economic and revenue trends. The resolution of the projected imbalance for FY 2009 and the FY 2010 deficit will be contained in the supplemental budget for the current year and the proposed budget for FY 2010, respectively, which the Governor will submit to the General Assembly in January 2009. To the extent that such changes require the General Assembly's approval, statutory changes are included in the Governor's supplemental budget, if not submitted earlier.

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

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

million of resources to finance FY 2003 budgeted expenditures, and allocated the remaining \$1.7 million (including interest earnings) in FY 2004.

In his FY 2007–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 following table sets forth a comparative statement of General Fund free surplus for fiscal years 2007 through 2009. FY 2007 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The free surplus for FY 2007 reflects the transfer of \$19.4 million from the Budget Reserve and Cash Stabilization Account due to a revenue shortfall which would have resulted in a deficit balance and the inability to reappropriate unexpended balances from FY 2007 as required by law. FY 2008 data is derived from the preliminary unaudited closing report for the fiscal year ended June 30, 2008 prepared by the State Controller. The free surplus, based upon the State Controller's preliminary closing report for FY 2008 issued in August 2008, reveals a pre-audited deficit of \$33.6 million; if no further action is taken, the State would close FY 2008 in a deficit position. Based upon the intent of the Governor to request an appropriation from the Budget Reserve Fund, the free surplus for FY 2008 is estimated to be \$0.0 million, and there will be \$1.7 million of reappropriations carried forward. The FY 2008 Enacted Budget assumed there would be a \$3.2 million closing balance; based upon the preliminary closing, this will not be available as an opening balance for FY 2009. The column for the FY 2009 Revised Budget reflects the repayment of the Budget Reserve Fund transfer estimated at \$33.6 million and the spending of the \$1.7 million reappropriations resulting in expenditures of \$3.311 billion. The resources, net of transfers are \$3.274 billion, reflecting the diminished opening surplus and \$1.7 million of reappropriations. The FY 2009 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2008. The FY 2009 revised estimates reflect the budget enacted by the General Assembly, as modified by projected changes to the expenditures due to the \$1.7 million reappropriation and for the repayment of the Budget Reserve Fund transfer which would be included in the supplemental budget submitted by the Governor to the General Assembly in January 2009. The budget enacted by the General Assembly in June 2008 for FY 2009 was predicated upon available resources of \$3,276.2 billion net of reserve fund contributions, and expenditures of \$3,276.2 billion resulting in an estimated closing surplus of \$0.1 million. In order to bring the FY 2009 budget into balance based on the FY 2008 closing, the Administration needs to develop a \$36.7 million budget balancing plan due to the lower than planned opening surplus (zero compared to \$3.2 million) and the estimated repayment of the Budget Reserve Fund transfer of \$33.6 million. This is prior to any other items that may arise and be reflected in the first quarter report to be issued in November, 2008. It is expected that the first quarter report will show a deficit, especially in light of the current financial crisis and the downturn in the economy.

FY 2009 General Revenue Budget Surplus

	FY2007 Actual	FY2008 Preliminary Actual(1)	FY2008 Preliminary Actual Modified(2)	FY2009 Enacted Budget(3)	FY2009 Revised Budget(4)
Surplus					
Opening Surplus	\$ 38,330,947	\$ -	\$ -	\$ 3,199,106	\$ 0
Adjustment	202				
Reappropriated Surplus	17,381,365	3,640,364	3,640,364	-	1,738,518
Subtotal	55,712,514	3,640,364	3,640,364	3,199,106	1,738,518
General Taxes	2,529,241,036	2,518,689,049	2,518,689,049	2,564,000,000	2,564,000,000
Revenue estimators' revision	-	-	-	20,000,000	20,000,000
Changes to the Adopted Estimates	-	-	-	16,358,244	16,358,244
Subtotal	2,529,241,036	2,518,689,049	2,518,689,049	2,600,358,244	2,600,358,244
Departmental Revenues	277,790,450	352,107,296	352,107,296	240,000,000	240,000,000
Revenue estimators' revision	-	-	-	1,100,000	1,100,000
Changes to the Adopted Estimates	-	-	-	106,527,559	106,527,559
Subtotal	277,790,450	352,107,296	352,107,296	347,627,559	347,627,559
Other Sources					
Gas Tax Transfers	4,704,602	4,513,745	4,513,745	4,685,000	4,685,000
Revenue estimators' revision	-	-	-	(55,000)	(55,000)
Other Miscellaneous	67,471,487	182,892,012	182,892,012	11,300,000	11,300,000
Rev Estimators' revision-Miscellaneous	-	-	-	(500,000)	(500,000)
Changes to the Adopted Estimates	-	-	-	8,600,000	8,600,000
Lottery	320,989,832	354,311,448	354,311,448	363,900,000	363,900,000
Revenue Estimators' revision-Lottery	-	-	-	1,600,000	1,600,000
Unclaimed Property	11,456,513	15,387,030	15,387,030	9,400,000	9,400,000
Revenue Estimators' revision-Unclaimed	-	-	-	(200,000)	(200,000)
Subtotal	404,622,434	557,104,235	557,104,235	\$ 398,730,000	\$ 398,730,000
Total Revenues	\$ 3,211,653,920	\$ 3,427,900,580	\$ 3,427,900,580	\$ 3,346,715,803	\$ 3,346,715,803
Transfer to Budget Reserve	(65,388,158)	(68,558,012)	(68,558,012)	(73,698,128)	(73,627,748)
Transfer from Budget Reserve	19,423,025	-	33,599,693	-	-
Total Available	\$ 3,221,401,301	\$ 3,362,982,932	\$ 3,396,582,625	\$ 3,276,216,781	\$ 3,274,826,574
Actual/Enacted Expenditures	\$ 3,217,760,937	\$ 3,394,844,107	\$ 3,394,844,107	3,276,156,221	3,276,156,221
Reappropriations	-	-	-	-	1,738,518
Repayment of FY2008 Transfer	-	-	-	-	33,599,693
Total Expenditures	\$ 3,217,760,937	\$ 3,394,844,107	\$ 3,394,844,107	\$ 3,276,156,221	\$ 3,311,494,432
Free Surplus	\$ (0)	\$ (33,599,693)	\$ 0	\$ 60,560	\$ (0)
Reappropriations	(3,640,364)	(1,738,518)	(1,738,518)	-	-
Budget Balancing Plan(5)					36,667,858
Total Ending Balances	\$ 3,640,364	\$ (31,861,175)	\$ 1,738,518	\$ 60,560	\$ (0)
Budget Reserve and Cash Stabilization Account	\$ 78,659,212	\$ 102,837,017	\$ 69,483,157	\$ 113,839,470	\$ 113,839,470

⁽¹⁾Reflects the FY 2008 Preliminary Actual data as reported by the State Controller in his August 29, 2008 report which revealed a \$33,599,693 deficit.

⁽²⁾Reflects the FY 2008 Preliminary Actual data as reported by the State Controller in his August 29, 2008 report which revealed a \$33,599,693 deficit, and an estimated \$33.6 million appropriation from the Budget Reserve Fund to be requested by the Governor in a resolution to be submitted to the General Assembly in January 2009.

⁽³⁾Reflects the FY 2009 budget enacted by the General Assembly in June 2008, including modifications to revenue estimates by the May 2008 Revenue Estimating Conference.

⁽⁴⁾Reflects the FY 2009 budget enacted by the General Assembly in June 2008, including modifications to revenue estimates by the May Revenue Estimating Conference. Reflects enacted expenditures plus the estimated amount of the Budget Reserve Fund Transfer to be requested by the Governor for FY 2008 which is required to be repaid in FY 2009.

⁽⁵⁾Estimate of budget balancing plan needed to be developed based upon the FY 2008 preliminary closing. This amount does not reflect any other items that may arise and be reflected in the first quarter report of the State Budget Office to be issued in November, 2008.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years the State has sought to enhance the timeliness of completion of the Comprehensive Annual Financial Report. The report for the fiscal year ending June 30, 2005 was issued in February 2006. The report for fiscal year ending June 30, 2006 was issued in January 2007. The FY2007 report was issued in early April 2008, after passage of legislation by the General Assembly to appropriate \$19.4 million from the Budget Reserve and Cash Stabilization Account for FY 2007.

As part of the auditing process for the fiscal year ending June 30, 2007, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the State's Auditor General's reports entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General, 86 Weybosset Street, Providence, Rhode Island 02903. The State has dedicated substantial resources to resolving these issues and has successfully addressed many of the observed deficiencies. The State continues 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.

Sinking Fund Commission

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

Tax Anticipation Notes

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

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

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

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
1990	\$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009*	350,000,000	13.9

*Estimated.

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 September 30, 2008, authorized but unissued direct debt totaled \$275,016,822 and there was no authorized but unissued guaranteed debt.

**Net Tax Supported Debt Ratios
(in thousands)**

	Debt Outstanding <u>June 30, 2004</u>	Debt Outstanding <u>June 30, 2005</u>	Debt Outstanding <u>June 30, 2006</u>	Debt Outstanding <u>June 30, 2007</u>	Debt Outstanding <u>June 30, 2008</u>
Direct Debt:					
Variable Rate General Obligations_	\$ 24,865	\$ 22,665	\$ 19,665	\$ 16,365	\$ 14,165
Various Purpose Bonds Outstanding	<u>737,772</u>	<u>778,250</u>	<u>822,881</u>	<u>897,119</u>	<u>982,923</u>
Subtotal	\$ 762,637	\$ 800,915	\$ 842,546	\$ 913,483	\$ 997,088
Guaranteed Debt:					
Narragansett Bay District Commission Bonds ⁽¹⁾	<u>11,266</u>	-	-	-	-
Subtotal	11,266	-	-	-	-
Other Debt Subject to Annual Appropriation:					
RI Refunding Bond Authority Lease Rental Bonds	84,730	74,615	60,320	42,710	24,235
Convention Center Authority Outstanding ⁽²⁾	302,320	202,855	287,185	279,935	270,960
Economic Development Corporation – Transportation	47,405	42,255	79,920	76,290	72,560
Certificates of Participation – Master Equipment Lease	5,180	9,505	13,580	19,790	14,395
Certificates of Participation – Intake Center	15,285	13,025	10,655	8,160	5,535
Certificates of Participation – Attorney General	2,795	2,795	2,795	2,575	2,230
Certificates of Participation – DLT Howard Complex	19,345	18,275	17,150	15,970	13,375
Certificates of Participation – Shepards Building	26,410	25,080	23,655	22,135	20,980
Certificates of Participation – Pastore Steam Plant	23,440	23,440	23,440	22,360	22,160
Certificates of Participation – Kent County Courthouse	-	58,910	56,685	54,405	52,075
Certificates of Participation – Traffic Tribunal Court Complex	-	21,565	21,565	20,765	19,940
Certificates of Participation – Training School	-	51,985	51,985	50,205	48,370
Certificates of Participation – Technology Initiative	-	-	-	23,490	21,000
Certificates of Participation – DOA Energy Conservation	-	-	-	6,000	6,000
Certificates of Participation – URI Energy Conservation	-	-	-	6,735	6,735
Rhode Island Housing/Traveler’s Aid/NOP Program	12,550	13,060	18,754	15,502	18,152
Economic Development – Masonic Temple	-	-	-	14,280	9,775
Economic Development – Dow Chemical Corporation	25,000	24,542	-	-	-
Economic Development – URI Power Plant	14,134	13,514	12,869	12,194	11,494
Economic Development – McCoy Stadium	<u>7,080</u>	<u>6,180</u>	<u>5,245</u>	<u>4,275</u>	<u>3,265</u>
Subtotal	585,674	601,601	685,803	697,776	643,236
Performance Based Agreements ⁽³⁾					
Economic Development – Fidelity Building I	22,487	21,847	21,154	20,402	19,592
Economic Development – Fidelity Building II	10,000	10,000	10,000	10,000	9,766
Economic Development – Fleet Bank Lease	<u>10,180</u>	<u>10,015</u>	<u>9,830</u>	<u>9,630</u>	<u>9,412</u>
Subtotal	2,677	41,862	40,984	40,032	38,772
Gross Debt	1,402,253	1,444,379	1,569,333	1,651,292	1,679,096
Less: Adjustments for Agency Payments:	(67,441)	(54,976)	(29,662)	(28,848)	(27,766)
Net Tax Supported Debt	\$1,334,812	\$1,389,403	\$1,539,672	\$1,622,444	\$1,651,331
Debt Ratios					
Personal Income	\$35,816,500	\$37,627,250	\$39,042,500	\$40,921,250	42,302,848
Debt as a Percent of Personal Income	3.73%	3.69%	3.94%	3.96%	3.90%

- (1) Reflects the defeasance in June 2005 of the user fee funded general obligation bonds by the Narragansett Bay District Commission which were guaranteed by the State.
- (2) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel.
- (3) Excludes contract for Providence Place Mall described under “State Revenues – Sales Tax”.

Direct debt is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2008, the State had \$997.1 million of general obligation tax supported bonds 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 2009 through FY 2027 (excluding the bonds described herein).

Debt Service Schedule for General Obligation
Debt Issued for FY 2009-2028*

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2009	67,233,740	45,828,472	113,062,212
2010	61,004,000	43,476,574	104,480,574
2011	50,995,000	40,754,515	91,749,515
2012	72,195,000	37,722,920	109,917,920
2013	80,140,000	33,805,125	113,945,125
2014	73,535,000	30,103,178	103,638,178
2015	63,850,000	26,465,299	90,315,299
2016	65,125,000	23,147,611	88,272,611
2017	64,820,000	19,933,442	84,753,442
2018	56,920,000	16,948,364	73,868,364
2019	55,305,000	14,254,826	69,559,826
2020	49,230,000	11,795,056	61,025,056
2021	46,850,000	9,577,089	56,427,089
2022	37,660,000	7,646,853	45,306,853
2023	39,430,000	5,889,466	45,319,466
2024	29,590,000	4,168,779	33,758,779
2025	23,855,000	2,733,125	26,588,125
2026	25,045,000	1,558,958	26,603,958
2027	10,610,000	704,476	11,314,476
2028	<u>9,530,000</u>	<u>226,338</u>	<u>9,756,338</u>
Subtotal-Fixed Rate Debt	<u>\$982,922,740</u>	<u>\$376,740,466</u>	<u>\$1,359,663,206</u>
Subtotal-Variable Rate Debt**	14,165,000		
Total*	\$997,087,740		

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of September 30, 2008. Excludes guaranteed and contingent debt.

** Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2008 in the amount of \$14,165,000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of September 30, 2008 which has been approved by referenda of the electors.

Authorized but Unissued Direct Debt

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Authorized but Unissued Debt as of September 30, 2008*</u>
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	30,000
RI Water Pollution Revolving Loan Fund and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, Ch. 434-P.L. of 1990	5,600,000
State Police HQ/Fire Training Academy	Ch. 65-P.L. of 2002	40,070,000
Preservation, Recreation & Heritage Transportation	Ch. 65-P.L. of 2002	1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	950,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	5,800,000
Historic Preservation and Heritage	Ch. 595-P.L. of 2004	34,370,000
URI Biotechnology & Life Sciences Center	Ch. 595-P.L. of 2004	1,000,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	14,750,000
Higher Education Transportation	Ch. 246-P.L. of 2006	17,000,000
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	59,290,000
Environmental Management	Ch. 246-P.L. of 2006	46,492,195
Affordable Housing	Ch. 246-P.L. of 2006	6,700,000
Total Direct Debt		<u>\$275,016,822</u>

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 February 1, 2008, 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 \$20,000,000 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 \$26,175,387, 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, 2008, \$2,230,000 of these certificates were outstanding.

The State has also entered into a lease agreement with a financial institution that issued \$33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2008, \$5,535,000 was outstanding.

The State also entered into a lease agreement with a financial institution which issued \$24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. 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, 2008, \$13,375,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued \$34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued \$34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. 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, 2008, \$21,420,000 in Certificates of Participation were outstanding.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. As of June 30, 2008, \$3,265,000 was outstanding.

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

financed an additional \$6,950,000. 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, 2008, \$14,395,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued \$28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. \$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, 2008, there was \$22,160,000 of 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. As of June 30, 2008, there was \$18,152,000 outstanding. In FY 2008, the State provided an additional \$7.5 million through the loan agreement for FY2007 projects.

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. As of June 30, 2008, \$72,560,000 was outstanding.

In 2005, Rhode Island 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, 2008, there was \$52,075,000 outstanding.

In 2005, Rhode Island 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, 2008, there was \$19,940,000 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. As of June 30, 2008, there was \$21,000,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will 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. As of June 30, 2008, there was \$12,735,000 outstanding.

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to \$14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer. As of June 30, 2008, there was \$9,775,000 outstanding.

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 September 30, 2008, the following authorizations have been enacted and the State plans to issue the debt over the next three years:

Registry of Motor Vehicles	\$13,000,000
Technology Projects	13,410,000
Energy Conservation	64,465,000

School for the Deaf	33,290,000
Total Certificates of Participation	124,165,000
Economic Development Corporation – Historic Structures Tax Credit Fund	356,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	\$480,365,000

The State plans to issue \$91,065,000 of Certificates of Participation in FY 2009 and it is estimated that \$33.1 million of the energy conservation project authorization will be issued in FY 2010 or later. In the Spring of 2009, it is expected that the Economic Development Corporation will issue up to \$356.2 million of bonds 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, including payment of a fee in March 2009 for projects that seek to continue to qualify for the tax credits. The debt service on these bonds will be subject to annual appropriation by the General Assembly.

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 provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional \$10 million of Phase II bonds with similar provisions were issued. As of June 30, 2008, \$29.358 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$2.5 million in 2008, and are expected to reach \$2.5 million for Phase I and \$522,000 for Phase II annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2008, \$9.412 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately \$300,000 per year.

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). On July 31, 2003 the Authority issued \$35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds.

The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is \$25,795,747 at June 30, 2008.

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

Narragansett Bay Commission. The Commission is a public corporation of the State of Rhode Island, having a legal existence distinct from the State, and not constituting a part of State government, created in 1980 pursuant to Chapter 25 of title 46 of the General Laws of Rhode Island. The Act authorized the Commission to acquire, operate and upgrade the metropolitan Providence wastewater collection and treatment facilities. Full responsibility for the metropolitan Providence system was assumed on May 2, 1982. On January 1, 1992 the former Blackstone Valley District Commission was merged into the Narragansett Bay Commission.

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

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority was created in 1987, pursuant to legislation under Chapter 34, title 42 of the General Laws of Rhode Island and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to \$80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default. Effective July 1, 2008, the General Assembly reduced the authorization to \$20,000,000.

As of June 30, 2007, the Authority had outstanding mortgage agreements and other commitments for \$13,154,957 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, 2007, the Fund had a balance of \$2,216,535. 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.

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

Article 2 of the Fiscal Year 1998 Appropriations Act, effective July 1, 1997, transferred the functions, powers, rights, duties and liabilities of the Rhode Island Public Buildings Authority to the Rhode Island Refunding Bond Authority. Until this consolidation, the Rhode Island Public Buildings Authority, created by Chapter 14 of title 37 of the General Laws of Rhode Island, was a body corporate and politic which was generally authorized to acquire, construct, improve, equip, furnish, install, maintain and operate public facilities and public equipment through the use of public financing, for lease to federal, State, regional and municipal government branches, departments and agencies,

in order to provide for the conduct of the executive, legislative and judicial functions of government. The various types of projects financed by the Public Buildings Authority included judicial, administrative, educational, residential, rehabilitative, medical, correctional, recreational, transportation, sanitation, public water supply system and other projects.

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2008 totals \$24,235,000.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, 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 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 FY 2008.

As of June 30, 2008, the Authority had \$270,960,000 principal outstanding debt excluding interest consisting of the following issues:

- 1993 Series B - \$45,175,000
- 2001 Series A - 59,210,000
- 2003 Series A - 41,315,000
- 2005 Series A - 34,150,000
- 2006 Series A - 91,110,000

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 the 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 Civic 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 (the Corporation), a quasi-public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws of Rhode Island, for the purpose of assisting municipalities in solving their waste disposal problems and for developing a more suitable alternative approach to the overall solid waste disposal problem through

implementation of a resource recovery program. To accomplish its purposes, the Corporation has the power to issue negotiable notes and bonds subject to the provisions of Rhode Island General Law 35-18 and 23-19.

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of \$19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2008 totals \$15,670,000.

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.

During 2006, in conjunction with the purchase of several properties held for development, the Corporation issued various note payable agreements, bearing interest at 5% per annum, in the original amount of \$4,700,000. The aggregate balance outstanding on these notes at June 30, 2008 and 2007 was \$1,250,000 and \$1,875,000 respectively. Future minimum debt payments are \$625,000 in fiscal year 2008 and \$625,000 in fiscal year 2009.

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

<u>Fiscal Year</u>	<u>Amount</u>
1995	6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0
2005	4,300,000
2006	7,500,000
2007	3,300,000
2008	<u>5,000,000</u>
	<u>\$59,215,000</u>

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$33,299,000 into the trust fund and has disbursed approximately \$5,348,000 for remediation expenses and trustee management fees through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$13,828,000 as of June 30, 2008.

The cost of future remedial actions may exceed the amount of funds reserved. However, the Corporation projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and without the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and post closure care costs related to Phases II, III, IV and V. At June 30, 2008, the Corporation has approximately \$39,636,000 in the trust funds to meet the financial requirements of closure and post closure care costs related to Phases 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 cost.

As a result of concerns raised by the Executive Director of the Corporation regarding possible mismanagement of the Corporation prior to the beginning of his tenure in early 2007, the Governor requested the Bureau of Audits for the State to examine the Corporation in January 2008. The Bureau of Audits released in March 2008 preliminary results of its examination of the Corporation, which raised various issues of concern, including potential conflicts of interests violations in various land purchases, land purchases that exceeded comparable market prices, monies managed by an investment firm associated with a former board member, and charitable contributions from which board members and employees appeared to derive personal benefits. It is anticipated that the Bureau of Audits will complete its full audit of the Corporation in the fall of 2008.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2008, the Agency has issued bonds in the aggregate amount of \$777,115,000 to fund \$872,196,309 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, 2008 is \$453,195,000 in the clean water state revolving fund (CWSRF wastewater projects), \$59,485,000 for three conduit financings and \$118,660,000 in the drinking water state revolving fund. Also, in years 1997 through 2008, the Agency made a total of \$41,130,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of \$27,578,037 in direct loans out of the Drinking Water State Revolving Fund and \$58,095,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 257 buses and 140 vans carrying approximately 25.3 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and

(2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 to \$1.50 and then to \$1.75 in July 2008. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2008, audited results of operations reveal that State-operating assistance to the Authority totaled \$32,724,644, operating revenues totaled \$32,643,162, and other revenues totaled \$24,566,713.

In 2005, facing a series of budget deficits, the Authority eliminated liability insurance coverage for claims arising out of its operations, which insurance covered losses above \$1 million and up to \$5 million, based upon its past claims history. The elimination of liability insurance coverage has saved the Authority significant insurance premium expenses but has left the Authority uninsured should any major liability claim arise.

The Authority, as a result of a possible budget deficit that may reach as high as \$10 million for FY 2009 as compared to its \$100 million budget, has scheduled hearings on service reductions that could eliminate twenty (20%) percent of its bus service beginning in January 2009. The Governor has appointed a committee of directors from the Department of Revenue, Department of Transportation and the Department of Administration to work with the Authority to identify potential cost savings and operating efficiencies in order to address the Authority's short-term budget deficit without eliminating any of its current bus service and to provide recommendations and develop a strategic plan for the long-term success of the Authority.

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

The Corporation, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, created in 1974 under Chapter 64, title 42 of the General Laws of Rhode Island. The 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, 2007, the Corporation had revenue bonds outstanding of \$859,415,229 including conduit debt of \$67,807,767 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued \$30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The 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, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the 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 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2007, the outstanding balance was \$20,402,462.

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, Rhode Island. 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, 2007, the outstanding balance was \$10,000,000.

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, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2007, the outstanding balance was \$9,630,000.

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 January 1998, the Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. At June 30, 2006, the outstanding balance was \$5,245,000.

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.

In July 2007, the Rhode Island Economic Development Corporation provided \$14 million to an affiliate of Sage Hospitality, the developer of the old Masonic Temple located in Providence, Rhode Island, in the form of a 40 year loan, at an interest rate of ½ of one per cent, in exchange for the extinguishment of no less than \$24 million in Rhode Island Historic Preservation Tax Credits that have not yet been issued on the project to redevelop the old Masonic Temple into a Renaissance Hotel. The Corporation borrowed funds for the transaction from Bank of America and the Governor agreed to request the General Assembly to appropriate each fiscal year funds sufficient to repay the obligation of the Corporation during FY 2008 through FY 2010. It is anticipated that the net savings to the State would be approximately \$8,000,000 over the period of time those tax credits may otherwise have been used.

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 the EDC, and 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, hangers, control towers, ramps, wharves, bulkheads, buildings, structures, parking areas, improvements, facilities, or other real or personal property, 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 its Articles of Incorporation, the powers of RIAC are vested in its Board of Directors consisting of seven members; one member is appointed by the Mayor of the City of Warwick and the remaining six members are appointed by the Governor of the State. Each of the six directors appointed by the Governor serves a staggered four year term. The director appointed by the Mayor of the City of Warwick serves at the pleasure of the Mayor.

Pursuant to the State Lease Agreement, RIAC leased 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 operates on a fiscal year basis beginning on July 1 and continuing through the following June 30th of each year. 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.

The powers of the RIAC are vested in its Board of Directors consisting of seven members. RIAC does not have the power to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T.F. Green Airport, which is Rhode Island’s only certified Part 139 commercial carrier. 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. There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

North Central Airport

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

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 the Quonset Airport. Quonset Airport also 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

Located in the southwest portion of Rhode Island in Westerly, Westerly Airport is approximately thirty-five miles from the Airport. Westerly is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

Newport Airport

This airport is located in Middletown, approximately seventeen miles from 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 8,000 commuter passengers annually.

As of June 2008, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

Airport Use & Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2008:

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

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

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for the federal fiscal year 2006 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 57th busiest in federal fiscal year 2005, 57th in federal fiscal years 2003 and 2004, and 56th, in federal fiscal year 2002.

Actual enplaned passengers for fiscal year 2008 were 45,038 below 2007, resulting in a decrease of 1.8%. The decline in enplanements at the Airport is attributable to the cessation of services by Spirit Airlines in April 2007 and the reduction in available seat capacities as several mainline carriers continue to shift their service to regional jet and commuter affiliates.

Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for State G.O. Bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not

required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient moneys to reimburse the State currently, 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, 2008 and 2007 was \$11.678 million and \$13.195 million, respectively.

In 1994, RIAC issued \$30 million 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 at June 30, 2008 and 2007 was \$6.07 million for both years.

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, 2008 and 2007 was \$35.08 million and \$54.46 million, respectively.

In 2000, RIAC issued \$8.38 million Series A and \$42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5%. The balance outstanding as of June 30, 2008 and 2007 was \$5.19 million and \$6.31 million, respectively.

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 from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was \$23.585 million and \$26.415 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 \$20.190 million in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARBs, respectively. The refunding issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was \$50.06 million and \$50.095 million respectively.

In 2005, RIAC issued \$43.545 million Series A and \$27.245 million Series B 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 in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 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, 2008 and 2007 was \$114.87 million and \$115.075 million, respectively.

In 2008, RIAC issued \$17.645 million Series A and \$15.49 million Series B Airport Revenue Bonds dated May 30, 2008 maturing annually from 2008 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, 2008 was \$51.165 million.

Long Term Debt Administration – Special Facility

In 2006, RIAC issued \$48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility 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 \$48.765 million as of June 30, 2008 and June 30, 2007. The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is 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 (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 Intermodal Facility Project, RIAC and the EDC have secured additional funds under the US Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) provisions for the payment of eligible project costs of the Intermodal Facility 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 to be funded from CFCs on the Date of Operational Opening in an amount equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2008 and June 30, 2007 approximately \$83 thousand had been drawn on the TIFIA loan, respectively.

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

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2007, the Corporation had an outstanding principal balance of conduit debt of \$105,193,203. 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 \$13,154,957 as of June 30, 2007.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and 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, 2008 was \$1,616,370,000 consisting of \$1,493,874,000 of long-term bonds and \$122,496,000 of short-term or convertible-option bonds. Included in the total outstanding is \$321,813,000 in bonds, which are secured in part by capital reserve funds which have aggregated to

\$39,001,000 on June 30, 2008. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2008, the Authority held \$609,252,368 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on September 30, 2008, 153,147,816 in Rhode Island Family Education Loans and \$241,289,363 in College Bound Loans. As of September 30, 2008, the Authority had \$988,590,000 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 Boundfund®, Rhode Island's IRS Section 529 college savings program). Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On August 7, 1997 the Board issued refunding bonds in the amount of \$9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of June 30, 2008 was \$2,000,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000. On November 15, 2002, the Board issued \$11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds will be used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2008 was \$7,530,000.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or

obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2008, the Corporation had \$2,420,465,710 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

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

The 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”, as defined in the Act, after December 2003. As of June 30, 2008, the TSFC had \$646,535,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional \$197.0 million of its TASC Bonds on June 27, 2007, all of which is outstanding. Combined, there is \$843,535,000 of bonds outstanding as of June 30, 2008.

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

EMPLOYEE RELATIONS

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

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

As of September 27, 2008 the State had 14,501 paid employees. This equates to approximately 13,897.5 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 4,024 employees, or 35.9 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social

Service Employees, Local 580 (875 employees); the Rhode Island Brotherhood of Correctional Officers (1,138 employees); the American Association of University Professors (692 employees) to name a few. In addition, there are 3,329 non-union employees. Contracts with all but two of the collective bargaining units expired on or prior to June 30, 2008. During the summer of 2008, the Administration signed a memorandum of settlement which reflected a negotiated four year agreement which required approval of the various union memberships, and which reflected a portion of the savings to the State needed in order to accomplish the proposed \$50.2 million general revenue savings in personnel costs to balance the FY 2009 Budget. Twenty seven unions have ratified the agreement. The membership of eight collective bargaining units have not yet approved the memorandum of settlement. Discussions have continued between the State and the State's largest union, Council 94, and on October 16, 2008, a memorandum of settlement was signed by the State and Council 94 leaders. Council 94 leaders have agreed to recommend approval of the memorandum of settlement. The memorandum of settlement will now be presented to the union membership for ratification. Concurrently, the State is preparing to begin arbitration proceedings as a result of a failed mediation process, and in the event the union does not ratify the settlement agreement by October 24, 2008, it is unclear at this time as to whether the State will be able to accomplish the full savings in personnel costs enacted in the FY 2009 Budget without leaving a significant number of vacant positions unfilled for a longer period of time than was originally contemplated. Additionally, the Rhode Island Brotherhood of Correctional Officers recently were awarded through arbitration, contractual provisions through 2006. The Brotherhood and the State have begun negotiations for the subsequent contract period.

As part of the FY 2009 budget, the Governor recommended, and the General Assembly agreed, that State Government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The FY 2009 Enacted Budget included targeted reductions of 629.7 FTE positions in certain agencies based upon specific programmatic reductions. It is projected that this reduction will save \$41.0 million from all fund sources in FY 2009. The FY 2009 Enacted Budget also includes \$60.6 million in savings, of which \$33.4 million is general revenues for personnel savings which were to be the result of negotiations with the unions. Additionally, the Governor's recommendation, and the FY 2009 Enacted Budget, assumed \$30.5 million in savings from all fund sources (\$16 million general revenues) from permanent position eliminations as a result of retirements for FY 2009. The FY 2009 Enacted Budget assumes that 400 non-critical positions will be eliminated upon the incumbent's retirement. Overall, the FY 2009 Enacted Budget provides that state employee full time equivalent positions be reduced from the FY 2008 enacted level of 15,987.3 to 14,958.6 in FY 2009, a reduction of 1,028.7 positions. As a result of changes enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there have been a significant number of state employees who have retired. As of September 27, 2008, there were 13,897.5 FTE positions filled, 1,061 less than authorized.

STATE RETIREMENT SYSTEMS

Employees' Retirement System

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

The ERSRI provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies ("LEA") and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. Additionally, the State created the Judicial Retirement Benefits Trust ("JRBT") to fund retirement benefits for judges hired after December 31, 1989 and the State Police Retirement Benefits Plan ("SPRBP") to fund retirement benefits for state police officers originally hired after July 1, 1987. These two plans are significantly smaller than the ERSRI for state employees and teachers. As of June 30, 2007, there are 44 active members and five retirees and beneficiaries of the JRBT and 179 active members and three retirees and beneficiaries of the SPRBT. Pensions for state police officers

and judges hired prior to the dates reflected above for each of the plans are funded on a pay as you go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal ("EAN") and amortization of the Unfunded Actuarial Accrued Liability ("UAAL") over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 22 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

Progress Toward Realization of Financing Objectives

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio increased from 54.6% to 57.5% during the period July 1, 2006 to June 30, 2007, while for teachers the ratio increased from 52.7% to 55.4% over the same period. During the same period, the funded ratio increased from 86.8% to 91.3% for the judges and increased for the state police from 86.0% to 90.2%. These are based on the Entry Age Normal funding method effective June 30, 1999.

Pension Reform

Article 7 of the Fiscal Year 2006 Appropriations Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) State employees and teachers effective July 1, 2005. Pursuant to State law, State employees contribute 8.75% of salary and teachers contribute 9.5% of salary. These contribution rates were not changed as part of the reform. The pension reform changes affected those employees with less than 10 years of contributory service as of July 1, 2005 and are reflected in the Tier II column below. Tier I members are those members who were vested as of July 1, 2005, and will be eligible to retire under the former provisions.

For State employees and teachers, the 2005 pension reform provided Tier I benefits outlined below for those members who vested as of July 1, 2005, and Tier II benefits for those who were not vested as of that date.

Article 22 of the FY 2009 Appropriation Act modified the State Police pensions by adding five years to retirement thresholds for state police troopers hired after July 1, 2007. They would be eligible to retire after 25 years of service and must retire after 30 years of service. The benefit would be 50.0 percent of final salary at 25 years increasing in 3.0 percent increments for additional years served up to 65.0 percent for 30 years. Current troopers may retire after 20 years of service with 50.0 percent of pay increasing to a maximum of 65.0 percent for 25 years at which time retirement is mandatory.

Article 35 of the FY 2009 Appropriation Act reduced pension benefits for judges hired after January 1, 2009 from 100.0 percent of their average salary for the three highest consecutive years to 90.0 percent for those retiring with the full benefit. Judges are eligible for the full benefit when they have 20 years of service and are at least 65 years old or if they have 15 years of service and are at least 70. The reduced benefit is an option for judges of any age who have served 20 years or those 65 and older who have served 10 years. This article also requires an additional 10.0 percent reduction in pension benefits if the retiree opts for a survivor benefit, which pays a spouse or minor child 50.0 percent of the retiree's pension after death. Current judges have a survivor benefit without reduction in their pensions.

Change in Age Eligibility

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

Change in Benefit Accrual Rates

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

Change in Cost of Living Adjustment

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

Social Security Option

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

GASB 25 and Funding Progress

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

GASB 25 requires that plans calculate an Annual Required Contribution (“ARC”), and, if actual contributions received are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. This amortization payment eventually will have to be computed using a funding period no greater than 30 years, but a 40-year maximum amortization period may be used during a ten-year transition period. Further, the amortization payment included in

the ARC may be computed as a level amount, or it may be computed as an amount that increases with payroll. However, if payments are computed on a level percent of payroll approach, the payroll growth assumption may not anticipate future membership growth.

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

Development of Contribution Rates
June 30, 2007

	State Employees	Teachers
1. Compensation		
(a) Supplied by ERSRI	\$ 626,192,680	\$ 902,193,640
(b) Adjusted for one-year's pay increase	660,044,273	959,372,837
2. Actuarial accrued liability	4,332,888,818	6,750,125,236
3. Actuarial value of assets	2,493,428,522	3,737,981,686
4. Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,839,460,296	3,012,143,550
5. Remaining amortization period at valuation date	22	22
6. Contribution effective for fiscal year ending:	June 30, 2010	June 30, 2010
7. Payroll projected for two-year delay	717,340,241	1,042,652,395
8. Amortization of UAAL	136,637,617	224,654,455
9. Normal cost		
(a) Total normal cost rate	10.39%	11.83%
(b) Employee contribution rate	8.75%	9.50%
(c) Employer normal cost rate (a - b)	1.64%	2.33%
10. Employer contribution rate as percent of payroll		
(a) Employer normal cost rate	1.64%	2.33%
(b) Amortization payments (8 / 7)	19.05%	21.55%
(c) Total (a + b)	20.69%	23.88%
11. Estimated employer contribution amount (7 x 10(c))	\$ 148,417,696	\$ 248,985,392

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability	Unfunded Actuarial	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
			Accrued Liability (UAAL) (3)-(2)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Employees						
June 30, 1999	\$2,201,890,748	\$2,607,397,329	\$405,506,581	84.4%	\$494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
June 30, 2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%
June 30, 2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%
Teachers						
June 30, 1999	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	120.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	141.5%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June,30 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%
June 30, 2006	3,394,086,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%
June 30, 2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%

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

**Schedules Of Contributions From The Employers
And Other Contributing Entity**

ERS Fiscal Year Ended <u>June 30</u>	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2007	\$118,389,603	100%	\$70,531,472	100%	\$109,415,227	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry Age Normal Level percent of	Entry Age Normal Level percent of
Amortization method	Payroll - Closed	Payroll - Closed
Remaining amortization period	22 years	22 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase	4.50% to 9.0%	4.50% to 13.25%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

OTHER BENEFITS

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

In September 2008 in anticipation of the implementation of GASB Statement 45, "*Other Post Employment Benefits*" the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2005 was determined to be approximately \$643.6 million, including \$580.1 million for State employees, \$ 51.0 million for State Police, \$8.5 million for the State's share for teachers, \$3.9 million for Legislators, and \$76 thousand for Judges. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2008, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 6.01%, 30.27%, .04%, 18.63% and .08% respectively. The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liabilities total \$364.7 million using a 8.25% rate of return, and \$531.9 million using a 5.0% rate of return.

In order to address this unfunded liability 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. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through 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 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree health. 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 enacted reform 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 on the active employee rate. For these 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. The General Assembly adopted comprehensive legislation which authorized creation of a trust fund and required that the State's obligation be funded on an actuarial basis. For FY 2009, the plan is being funded on an actuarial basis, and the State is contributing on the basis of interim rates from actuarial valuation as of June 30, 2005 performed in January 2008. Interim rates of 3.86%, 20.6%, 0.05%, 14.61% and 0.09% have been charged since July 2008 on a payroll basis for State Employees, State Police, Teachers, Legislators and Judges. The actuary is in the process of preparing the valuations as of June 30, 2006 and June 30, 2007 for use in the FY 2009 and FY 2010, and the State expects the FY 2009 rate to be higher than the amount being charged. The State intends to adjust the rate for FY 2009 to be in compliance.

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, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has a tentative settlement in the case for \$10,000,000, subject to Court approval, plaintiff acceptance and legislative action. No appropriation for this settlement amount is reflected in the FY 2009 Enacted Budget.

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 \$3.3 million in damages relating to the construction of a new facility. This decision has been appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island, and a decision has not been rendered yet on the matter. There is no specific appropriation made for this judgment.

On September 26, 2008, the Rhode Island Council 94 and certain members of the union filed an action in the State Superior Court. Rhode Island Council 94 requested the Court declare that the new laws relative to retiree health coverage, effective October 1, 2008, are unconstitutional and violate State collective bargaining laws. The changes in the laws with respect to retiree health coverage were adopted in order to reduce costs to the State for retiree health benefits by approximately \$9.8 million. The Court has denied the motion made by the Rhode Island Council 94 for a temporary restraining order against the implementation of such new laws. The State intends to vigorously contest the lawsuit.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2007, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

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EXHIBIT A

Audited Financial Statements of the State

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Exhibit A – Audited Financial Statements of the State for the Fiscal Year Ended June 30, 2007

EXHIBIT A

Page

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2007 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 48% of the assets and 1% 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

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

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.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have issued our report dated April 7, 2008 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages A-3 through A-18, the Budgetary Comparison Schedules on pages A-60 through A-71, and the Schedules of Funding Progress on page A-71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE
Auditor General

April 7, 2008

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2007. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities at June 30, 2007 by \$1,151.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$1,099.3) million was reported as unrestricted net assets, \$668.2 million was restricted net assets, and \$1,582.4 million was invested in capital assets, net of related debt.
- **Changes in Net Assets:** In the Statement of Activities the State's total net assets changed by (\$40.8) million in fiscal year 2007. Net assets of governmental activities changed by (\$49.1) million, while net assets of the business-type activities changed by \$8.3 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$921.5 million, a change of \$4.9 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$0.0, a change of (\$38.3) million in comparison with the previous fiscal year.
 - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$78.7 million, a change of (\$16.7) million in comparison with the previous fiscal year. The State transferred \$19.4 million from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by a general revenue shortfall.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$2.9 million, which was a change of (\$19.8) million from the previous year. This change includes reclassification of approximately \$28.5 million from unreserved to reserved for transportation capital projects during fiscal 2007.
- The GARVEE Fund ended its fiscal year with a fund balance of \$220.0 million a change of (\$94.3) million in comparison with the previous fiscal year. Of the fund balance, \$9.9 million is reserved for debt.
- The Rhode Island State Lottery transferred \$321.0 million to the General Fund in support of general revenue expenditures during the fiscal year, a change of (\$3.0) million in comparison with the previous fiscal year.

Overview of the Financial Statements

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

1. Government-wide financial statements,
2. Fund financial statements, and

Management's Discussion and Analysis

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 assists in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

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

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

- **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.

Management's Discussion and Analysis

Fund Financial Statements

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

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

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

Governmental funds include the general fund and special revenue, capital projects 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(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of 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. Like the government-wide statements, proprietary funds use the accrual basis of

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accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund (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 trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State’s CAFR.

Major Features of the Basic Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its

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obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally mandated budget.

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$1,151.3 million at the end of fiscal year 2007, compared to \$1,190.8 million at the end of the prior fiscal year. The primary reason for the (\$39.5) million change was that prior year resources were used to fund some of the current year expenses. Governmental activities have unrestricted net assets of (\$1,082.7) 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, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,618,791	\$ 1,581,097	\$ 320,999	\$ 329,272	\$ 1,939,790	\$ 1,910,369
Capital assets	2,604,474	2,405,706	168,763	151,591	2,773,237	2,557,297
Total assets	<u>4,223,265</u>	<u>3,986,803</u>	<u>489,762</u>	<u>480,863</u>	<u>4,713,027</u>	<u>4,467,666</u>
Long-term liabilities outstanding	2,459,742	2,219,442	279,650	286,281	2,739,392	2,505,723
Other liabilities	780,606	736,626	41,768	34,525	822,374	771,151
Total liabilities	<u>3,240,348</u>	<u>2,956,068</u>	<u>321,418</u>	<u>320,806</u>	<u>3,561,766</u>	<u>3,276,874</u>
Net assets:						
Invested in capital assets, net of related debt	1,691,793	1,591,074	(109,435)	(131,941)	1,582,358	1,459,133
Restricted	373,788	369,137	294,395	302,689	668,183	671,826
Unrestricted	(1,082,664)	(929,476)	(16,616)	(10,691)	(1,099,280)	(940,167)
Total net assets	<u>\$ 982,917</u>	<u>\$ 1,030,735</u>	<u>\$ 168,344</u>	<u>\$ 160,057</u>	<u>\$ 1,151,261</u>	<u>\$ 1,190,792</u>

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As indicated above, the State reported a balance in unrestricted net assets of (\$1,099.3) million at June 30, 2007 in the Statement of Net Assets. This deficit results primarily from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. 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 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 insure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as provide funding for cultural facilities and
- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependant 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 changed by (\$40.8) million during the current fiscal year. Total revenues of \$7,270.1 million were less than expenses of \$7,310.9 million. Approximately 39.1% of the State's total revenue came from taxes, while 25.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 32.7% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 34.5% and education, 18.1%. In fiscal year 2007, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,997.0 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2007 exceeded expenses by \$292.9 million.

During the year, the Tobacco Settlement Financing Corporation, a blended component unit, issued \$197,005,742 of additional Tobacco Settlement Asset Backed Bonds. The bond proceeds,

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amounting to \$195,000,000, were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement.

The cumulative effect of the prior period adjustment is fully explained in Note 18 Section C.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 351,861	\$ 360,728	\$ 2,028,470	\$ 1,947,732	\$ 2,380,331	\$ 2,308,460
Operating grants and contributions	1,716,318	1,821,134	4,607	2,342	1,720,925	1,823,476
Capital grants and contributions	151,528	156,828			151,528	156,828
General revenues:						
Taxes	2,842,828	2,794,230			2,842,828	2,794,230
Interest and investment earnings	37,539	25,644	12,137	8,826	49,676	34,470
Miscellaneous	106,543	114,362	8,137	6,752	114,680	121,114
Payments from component units	10,108	14,715			10,108	14,715
Total revenues	<u>5,216,725</u>	<u>5,287,641</u>	<u>2,053,351</u>	<u>1,965,652</u>	<u>7,270,076</u>	<u>7,253,293</u>
Program expenses:						
General government	858,729	527,841			858,729	527,841
Human services	2,519,745	2,622,935			2,519,745	2,622,935
Education	1,320,384	287,119			1,320,384	287,119
Public safety	391,354	370,706			391,354	370,706
Natural resources	91,758	74,695			91,758	74,695
Transportation	281,518	323,517			281,518	323,517
Intergovernmental		1,213,050				1,213,050
Interest	107,211	92,121			107,211	92,121
Lottery			1,487,239	1,409,134	1,487,239	1,409,134
Convention Center			42,859	37,862	42,859	37,862
Employment insurance			210,060	197,724	210,060	197,724
Total expenses	<u>5,570,699</u>	<u>5,511,984</u>	<u>1,740,158</u>	<u>1,644,720</u>	<u>7,310,857</u>	<u>7,156,704</u>
Change in net assets before transfers	(353,974)	(224,343)	313,193	320,932	(40,781)	96,589
Transfers	304,906	312,755	(304,906)	(312,755)		
Change in net assets	(49,068)	88,412	8,287	8,177	(40,781)	96,589
Net assets - Beginning	1,030,735	195,511	160,057	151,880	1,190,792	347,391
Cumulative effect of prior period adjustments	1,250	746,812			1,250	746,812
Net assets - Beginning, as restated	<u>1,031,985</u>	<u>942,323</u>	<u>160,057</u>	<u>151,880</u>	<u>1,192,042</u>	<u>1,094,203</u>
Net assets - Ending	<u>\$ 982,917</u>	<u>\$ 1,030,735</u>	<u>\$ 168,344</u>	<u>\$ 160,057</u>	<u>\$ 1,151,261</u>	<u>\$ 1,190,792</u>

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund

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balance of \$921.5 million, a change of \$4.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$78.7 million for a "rainy day" account, (2) \$65.5 million for continuing appropriations, (3) \$85.6 million principally for liquidating debt, (4) \$145.2 million for employment insurance programs and (5) \$29.9 million for other restricted purposes. Approximately 56.1% (\$516.7 million) of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$0.0 , while total fund balance was \$144.2 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.0% of total General Fund expenditures, while total fund balance represents 2.8% of the same amount. The General Fund's unreserved fund balance changed from \$38.3 million to \$0.0 , a change of (\$38.3) million during the current fiscal year. In addition to using all the beginning unreserved fund balance, \$19.4 million was transferred from the Budget Reserve Account to offset a budget deficit caused primarily by a general revenue shortfall.

Revenues and other sources of the General Fund totaled \$5,056.4 million in fiscal year 2007, a decrease of (\$13.4) million (-0.26%) from the previous year. Of the aforementioned special item \$42.5 million was transferred to the general fund and is included in other sources. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

	2007	2006	Increase (decrease) from 2006	
			Amount	Percent
Taxes:				
Personal income	\$ 1,065,367	\$ 996,792	\$ 68,575	6.88%
Sales and use	1,052,582	1,059,031	(6,449)	-0.61%
General business	360,949	366,444	(5,495)	-1.50%
Other	50,343	57,287	(6,944)	-12.12%
Subtotal	<u>2,529,241</u>	<u>2,479,554</u>	<u>49,687</u>	<u>2.00%</u>
Federal grants	1,629,715	1,713,287	(83,572)	-4.88%
Restricted revenues	109,184	105,765	3,419	3.23%
Licenses, fines, sales, and services	242,560	253,768	(11,208)	-4.42%
Other general revenues	35,337	33,546	1,791	5.34%
Subtotal	<u>2,016,796</u>	<u>2,106,366</u>	<u>(89,570)</u>	<u>-4.25%</u>
Total revenues	<u>4,546,037</u>	<u>4,585,920</u>	<u>(39,883)</u>	<u>-0.87%</u>
Other sources	510,392	483,880	26,512	5.48%
Total revenue and other sources	<u>\$ 5,056,429</u>	<u>\$ 5,069,800</u>	<u>\$ (13,371)</u>	<u>-0.26%</u>

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Expenditures and other uses totaled \$5,115.5 million in fiscal year 2007, an increase of \$64.1 million (1.27%) from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

	2007	2006	Increase (decrease) from 2006	
			Amount	Percent
General government	\$ 633,893	\$ 318,675	\$ 315,218	98.92%
Human services	2,512,286	2,614,712	(102,426)	-3.92%
Education	1,267,255	263,735	1,003,520	380.50%
Public safety	396,029	361,567	34,462	9.53%
Natural resources	81,518	69,538	11,980	17.23%
Capital outlay		35,479	(35,479)	-100.00%
Intergovernmental		1,186,887	(1,186,887)	-100.00%
Debt Service:				
Principal	79,954	73,700	6,254	8.49%
Interest	61,396	51,381	10,015	19.49%
Total expenditures	<u>5,032,331</u>	<u>4,975,674</u>	<u>56,657</u>	1.14%
Other uses	83,129	75,731	7,398	9.77%
Total expenditures and other uses	<u>\$ 5,115,460</u>	<u>\$ 5,051,405</u>	<u>\$ 64,055</u>	1.27%

Expenditures previously categorized as capital outlays and intergovernmental are now included in the applicable function.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) 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. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$2.9 million, while the total fund balance was \$32.8 million. Total fund balance of the ISTEA fund changed by \$8.7 million during the current fiscal year. The primary reason for the increase was the collection of approximately \$8.0 million of the federal receivable that had not been previously recognized in the fund financial statements because it was a long-term receivable.

GARVEE Fund. The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of \$220.0 million, a change of (\$94.3) million. The reason for this change was that it is a capital projects fund and current year expenditures were funded out of the prior year balance.

General Fund Budgetary Highlights

According to the State's Constitution, in FY2007 general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior

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fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional 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 a change of (\$29.2) million, -0.9%, between the original budget and the final budget. General revenue appropriations changed from the original budget by \$3.3 million, 0.1%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

General revenues	Original Budget vs. Final Budget Change (In thousands)	Percent
Taxes		
Personal Income	\$ 4,611	0.4%
Business Corporations	44,709	36.6%
Financial Institutions	9,800	-158.1%
Sales and Use	(35,775)	-3.9%
Motor Vehicle	(4,700)	-9.4%
Cigarettes	(4,391)	-3.5%
Departmental Revenue	(7,972)	-2.7%
Other		
Other Miscellaneous	6,628	10.9%
Transfer from Lottery	(40,200)	-11.1%
Other General Revenue	(1,895)	
Total Change in Estimated Revenue	\$ (29,185)	-0.9%
General revenue appropriations		
Department		
Administration	\$ 26,280	5.9%
Children, Youth and Families	13,394	7.7%
Human Services	(19,942)	-2.8%
Corrections	(5,356)	-3.3%
Other	(11,072)	
Total Change in Appropriations	\$ 3,304	0.1%

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, 2007, amounts to \$2,773.2 million, net of accumulated depreciation of \$1,534.1 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 8.4% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

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Actual expenditures to purchase or construct capital assets were \$336.3 million for the year. Of this amount, \$217.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$115.6 million.

State of Rhode Island's Capital Assets as of June 30, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Capital assets not being depreciated						
Land	\$ 338,987	\$ 332,092	\$ 45,558	\$ 45,558	\$ 384,545	\$ 377,650
Works of Art	135				135	
Intangibles	111,537	106,146			111,537	106,146
Construction in progress	597,005	* 413,619	25,142	3,272	622,147	416,891
Total capital assets not being depreciated	1,047,664	851,857	70,700	48,830	1,118,364	900,687
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	520,733	438,954	161,266	161,258	681,999	600,212
Building improvements	208,342	208,343			208,342	208,343
Equipment	220,661	204,521	13,060	11,275	233,721	215,796
Intangibles	8,428	1,196			8,428	1,196
Infrastructure	2,052,745	* 2,051,013			2,052,745	2,051,013
	3,014,609	2,907,727	174,326	172,533	3,188,935	3,080,260
Less: Accumulated depreciation	1,457,799	* 1,352,629	76,263	69,772	1,534,062	1,422,401
Total capital assets being depreciated	1,556,810	1,555,098	98,063	102,761	1,654,873	1,657,859
Total capital assets (net)	\$ 2,604,474	\$ 2,406,955	\$ 168,763	\$ 151,591	\$ 2,773,237	\$ 2,558,546

* Certain June 30, 2006 balances have been restated; see Note 18 Section C for an explanation.

Significant capital projects include relocation of a major segment of interstate highway as well as construction of new youth correctional facilities and a State Police headquarters.

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 \$2,206.5 million of which \$913.5 million is general obligation debt, \$390.1 million is special obligation debt and \$902.9 million is debt of the blended component units. The State's total bonded debt increased by \$217.0 million during the current fiscal year. This increase is the net of a \$71.0 million increase in general obligation debt, a decrease of \$27.9 million in special obligation debt and an increase of \$173.9 million in the blended component units debt. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

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During the current fiscal year, the State issued \$193.6 million of general obligation bonds of which \$74.8 million were refunding bonds used to refund \$72.9 million of outstanding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's). The Tobacco Settlement Finance Corporation issued \$197.0 million of Tobacco Settlement Asset Backed Bonds.

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 \$408.6 million. 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

In November 2006 the voters of the State approved an amendment to the Rhode Island Constitution that restricts, beginning July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Also, the amendment will, beginning July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenue.

In anticipation of the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the State has obtained an actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability was approximately \$696 million as of June 30, 2005. This calculation assumes an annual investment return rate of 5%. Legislation is pending that, if enacted, will modify the benefits provided to future retirees under the retiree medical benefit program. The State's policy has been to record as an expenditure current claims incurred and administrative costs for the retiree medical benefit program.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that general revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, be transferred to the State Retirement Fund upon completion of the post audit.

The November 2007 Revenue Estimating Conference revised the enacted FY 2008 estimate of general revenues downward by \$113.3 million. Nearly half of the general revenue sources were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales Tax, and Business Corporation Tax. The revised FY 2008 estimate of total general revenues is \$3.360 billion, a 3.3 percent decrease from the enacted FY 2008 estimate.

In addition, the first quarter report for FY 2008 prepared by the Budget Office and issued on November 15, 2007 projects that expenditures will exceed appropriations for a number of programs by \$46.7 Million.

In total the general revenue deficit for FY 2008 is projected to be \$151.5 million according to the first quarter report for FY 2008 prepared by the Budget Office.

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On January 17, 2008 the Governor submitted a supplemental budget proposal for FY 2008 to the General Assembly. This proposal includes a number of measures designed to eliminate the FY 2008 budget deficit discussed above.

Economic Factors

Rhode Island personal income has continued to increase over the past year, posting gains of 7.1 percent and 5.5 percent for the first two quarters of calendar year 2007, respectively. Annually, personal income grew by just 3.8 percent in fiscal year 2006 but is estimated to have accelerated to 5.1 percent in FY 2007. Despite this acceleration, Rhode Island continues to lag New England and the United States. In fiscal years 2006 and 2007, New England personal income grew at a rate of 5.5 percent and 5.8 percent, respectively. United States personal income grew at a more robust 6.2 percent for FY 2006 and 6.4 percent for FY 2007. The trend, however, in personal income per capita is very different.

Although Rhode Island's annual personal income per capita has, at times, grown more slowly than that of New England and the United States, it has also grown faster during other periods. From calendar years 1996 to 2000, Rhode Island personal income per capita lagged New England and the United States annually with the exception of 1997 when it surpassed the United States by 0.3 percentage points. From 2001 to 2003, Rhode Island personal income per capita grew at an average of 3.8 percent annually as compared to average annual growth of 1.6 percent for New England and 1.8 percent for the United States. Finally, personal income per capita growth in the 2004 to 2006 period averaged 4.5 percent annually for Rhode Island, lagging New England's average annual growth of 5.3 percent and the average annual growth of 5.2 percent for the United States. Despite these comparisons, Rhode Island has gained a higher level of per capita personal income as compared to the United States while increasingly falling behind New England's level of per capita personal income. From 2002 to 2006, Rhode Island's personal income per capita averaged \$920 higher than that of the United States in comparison to the \$52 per capita average a decade earlier, from 1992 to 1996. In comparison to New England, however, Rhode Island personal income has averaged \$5,087 lower per capita from 1992 through 2006, consistently widening every year. In 2006, Rhode Island per capita personal income was \$37,261 as compared to New England per capita personal income of \$44,252 and United States per capita personal income of \$36,629 as reported by the Bureau of Economic Analysis.

Rhode Island wages and salaries grew at lower rates than personal income as a whole for FY 2005 and FY 2006 before reversing in FY 2007. In FY 2005, the State's wages and salaries grew at 3.8 percent as compared to personal income growth of 4.8 percent. In FY 2006, wages and salaries grew at 3.6 percent as compared to 3.8 percent growth in personal income. In FY 2007, wages and salaries grew by 6.0 percent, exceeding personal income growth of 5.0 percent. According to Moody's Economy.com (11/2007), "[O]ver the very long term, payroll employment gains in Rhode Island will lag the U.S. average. However, this constraint will result more from population density than from declining per capita income, as future residents of the Ocean State can be expected to prosper from the focus on high-tech and innovation." 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

Management's Discussion and Analysis

levels in Rhode Island to the United States has been on a downward trend since 2003. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004, 2005, and 2006 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S.

According to midyear population estimates by the Bureau of Census, Rhode Island is the only state to have experienced loss of population in both 2005 and 2006. Only two other states and Washington, D.C., lost population in 2006: Louisiana and Michigan, which were hardly a surprise given the fallout of Hurricane Katrina and the contracting automobile industry. In 2005, North Dakota was the only other state to exhibit a decline in population size while the other 48 states and Washington, D.C. populations expanded. Regarding Rhode Island and Massachusetts, according to Moody's Economy.com (11/2007), "[A] narrowing in the housing affordability gap between the two states may also be lessening in-migration from Massachusetts. While U.S. population growth is expected to average about 0.9% over the next several decades, it will likely average just one-third of that pace in Rhode Island."

The State has implemented strategies to improve housing affordability. An upside risk to the forecast cited by Moody's Economy.com (11/2007) comes from the \$50 million bond referendum for affordable housing construction that passed on November 7, 2006. If the bond "actually leverages \$300 to \$400 million in private investment," it will result in a "spurring" of "the [S]tate's construction industry," as well as to "support the [S]tate's homeownership rate and increase the retention rate of young educated workers, a vital component to enhancing the economic well-being of the [S]tate's residents." Further, since FY 2002, the State's construction activity has been enhanced as a result of the provision of historic structure tax credits which have created economic incentives to stimulate the redevelopment and reuse of Rhode Island's historic structures. As of September 2007, qualified construction costs totaled \$575.0 million for completed projects utilizing the credits, and were estimated to be \$922.9 million for active and proposed projects that are expected to result in credits issued. This would result in an estimated \$172.5 million in tax credits for completed projects and \$276.9 million for active and proposed projects that may apply for credits.

The Rhode Island Department of Labor and Training reported at the November 2007 Revenue Estimating Conference that the unemployment rate increased slightly through the third quarter of CY 2007. Rhode Island's total unemployment has consistently been below last year's unemployment figures through the first three quarters of CY 2007. However, Rhode Island's unemployment rate remained above the national average for the fifth straight month in September 2007. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 3,635 jobs, or 0.7 percent in FY 2007. In FY 2006, Rhode Island gained 1,708 jobs, an increase of 0.3 percent over FY 2005. On a calendar year basis, Rhode Island added 5,308 jobs in 2005 and 2006. The November 2007 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 501,200 in FY 2008, an increase of 1.0 percent over FY 2007, and 506,200 in FY 2009, an increase of 1.0 percent over projected FY 2008.

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Although jobs in construction increased again in 2006, by 5.4 percent, the housing market in Rhode Island has begun to contract, with 23.2 percent fewer housing permits year-to-date through October 2007 from the prior fiscal year through October 2006. Although Rhode Island's "softening in house prices is good news for housing affordability," Moody's Economy.com states that "it is occurring at the expense of a marked increase in foreclosure rates for Rhode Island during the third quarter of 2007." This decreased available mortgage equity for withdrawal has strained homeowners' spending habits in Rhode Island most noticeably in the form of decreasing sales and use tax collections. FY 2007 sales and use tax collections have decreased by 2.4 percent through October 2007 as compared to the fiscal year period through October 2006.

The composition of Rhode Island's economy reflects the prominence of industries that are reliant on housing activity. Finance, Insurance and Real Estate is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contribution to total GDP has grown from 26.0 percent of GDP in 2000 to 26.7 percent of GDP in 2006. In 2006, F.I.R.E. accounted for \$12.2 billion of total gross domestic product of \$45.7 billion. For the period 2000 – 2006 this sector expanded by a respectable 26.8 percent. In 2006, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.8 billion, or 14.9 percent of the total Gross Domestic Product. This sector increased by 20.3 percent from the 2000 level although it decreased in percent contribution to GDP. 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 2000, Services have remained an integral sector accounting for 28.0 percent of Rhode Island's GDP in 2006. From 2000 to 2006, Services have grown by 47.1 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy. At 12.1 percent of GDP in 2006, the Government sector has grown slowly and steadily since 2000. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2006 than it did in 2000. In 2000, the Government sector accounted for 12.3 percent of GDP. In 2006, the Government sector contributed \$5.5 billion to total gross state product.

One of the "main threats" to the State's economic performance is the high tax burden imposed on Rhode Island businesses and households. High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island's heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts. Additionally, Moody's Economy.com (11/07) cites recent legislation to "eliminate REIT loopholes" as part of a policy that is "a hinder on prosperity." However, "[T]he desire to keep biotech companies growing in the [S]tate and attracting new ones led to the recently legislated Biotechnology Jobs Growth Act, which extends the duration of the [S]tate's investment tax credit from seven to 15 years for biotechnology companies." The biotechnology industry cluster that has begun to emerge in Rhode Island should positively continue to impact the State's long term economic performance. According to Moody's Economy.com (11/2007), "[A] major upside risk for the long-term forecast is further expansion of high-tech companies in Rhode Island, such as information technology or biotech." Further, "The [S]tate remains well-suited as an expansion corridor for the densely packed biotech community in eastern Massachusetts." The fact that "Rhode Island has the highest concentration of college students

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relative to population in the nation” bodes well for the future of the biotech and high-tech industry development in the State. These students are among the State’s chief assets for the development of a viable biotechnology industry cluster and “[T]he development of a biotech industry would allow Rhode Island to retain more of its college science majors, who usually search elsewhere for employment upon graduation,,” a compact geography, and responsive government at the state and local levels.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. 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 as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2007

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 582,245	\$ 19,854	\$ 602,099	\$ 260,591
Funds on deposit with fiscal agent	301,155	182,391	483,546	
Investments	327		327	69,905
Receivables (net)	377,918	59,780	437,698	191,143
Restricted assets:				
Cash and cash equivalents		14,514	14,514	497,660
Investments	72,545		72,545	423,713
Other assets				34,869
Due from primary government				3,720
Due from component units	1,025		1,025	
Internal balances	6,278	(6,278)		
Due from other governments and agencies	177,299	1,395	178,694	3,673
Inventories	2,242	970	3,212	2,787
Other assets	48,932	761	49,693	18,218
Total current assets	1,569,966	273,387	1,843,353	1,506,279
Noncurrent assets:				
Investments				150,533
Receivables (net)	18,882		18,882	1,414,425
Restricted assets:				
Cash and cash equivalents				145,667
Investments		43,791	43,791	199,636
Other assets				1,409,624
Due from component units	19,334		19,334	
Capital assets - nondepreciable	1,047,664	70,700	1,118,364	666,791
Capital assets - depreciable (net)	1,556,810	98,063	1,654,873	1,115,513
Other assets	10,609	3,821	14,430	81,250
Total noncurrent assets	2,653,299	216,375	2,869,674	5,183,439
Total assets	4,223,265	489,762	4,713,027	6,689,718
Liabilities				
Current Liabilities:				
Cash overdraft	4,778		4,778	2,208
Accounts payable	512,151	18,619	530,770	75,408
Due to primary government				1,978
Due to component units	3,720		3,720	
Due to other governments and agencies		1,668	1,668	748
Deferred revenue	8,500	1,717	10,217	23,272
Other current liabilities	77,553	4,630	82,183	285,373
Current portion of long-term debt	173,904	9,163	183,067	268,854
Obligation for unpaid prize awards		5,971	5,971	
Total current liabilities	780,606	41,768	822,374	657,841
Noncurrent Liabilities:				
Due to primary government				19,334
Due to other governments and agencies				4,292
Deferred revenue		9,556	9,556	1,059
Notes payable				3,801
Loans payable				255,674
Obligations under capital leases	242,297		242,297	30,609
Compensated absences	27,451		27,451	25,146
Bonds payable	2,136,857	269,035	2,405,892	3,532,803
Other liabilities	53,137	1,059	54,196	141,758
Total noncurrent liabilities	2,459,742	279,650	2,739,392	4,014,476
Total liabilities	3,240,348	321,418	3,561,766	4,672,317
Net Assets				
Invested in capital assets, net of related debt	1,691,793	(109,435)	1,582,358	899,576
Restricted for:				
Budget reserve	78,659		78,659	
Transportation	1,388		1,388	
Capital projects	10,090		10,090	
Debt	85,554	58,305	143,859	581,432
Employment insurance programs	145,176	236,090	381,266	
Other	51,735		51,735	153,429
Nonexpendable-education	1,186		1,186	85,349
Unrestricted	(1,082,664)	(16,616)	(1,099,280)	297,615
Total net assets	\$ 982,917	\$ 168,344	\$ 1,151,261	\$ 2,017,401

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2007
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
Primary government:								
Governmental activities:								
General government	\$ 858,729	\$ 132,152	\$ 79,857	\$ 139	\$ (646,581)	\$	\$ (646,581)	\$
Human services	2,519,745	125,901	1,300,039	2,343	(1,091,462)		(1,091,462)	
Education	1,320,384	11,180	178,271	178	(1,130,755)		(1,130,755)	
Public safety	391,354	49,821	36,140	9,706	(295,687)		(295,687)	
Natural resources	91,758	31,932	19,311	7,262	(33,253)		(33,253)	
Transportation	281,518	875	102,700	131,900	(46,043)		(46,043)	
Interest and other charges	107,211				(107,211)		(107,211)	
Total governmental activities	<u>5,570,699</u>	<u>351,861</u>	<u>1,716,318</u>	<u>151,528</u>	<u>(3,350,992)</u>		<u>(3,350,992)</u>	
Business-type activities:								
State lottery	1,487,239	1,806,218				318,979	318,979	
Convention center	42,859	19,251				(23,608)	(23,608)	
Employment security	210,060	203,001	4,607			(2,452)	(2,452)	
Total business-type activities	<u>1,740,158</u>	<u>2,028,470</u>	<u>4,607</u>			<u>292,919</u>	<u>292,919</u>	
Total primary government	<u>\$ 7,310,857</u>	<u>\$ 2,380,331</u>	<u>\$ 1,720,925</u>	<u>\$ 151,528</u>	<u>(3,350,992)</u>	<u>292,919</u>	<u>(3,058,073)</u>	
Component units:	<u>\$ 1,179,807</u>	<u>\$ 838,815</u>	<u>\$ 34,391</u>	<u>\$ 61,239</u>				(245,362)
General Revenues:								
Taxes					2,842,828		2,842,828	
Interest and investment earnings					37,539	12,137	49,676	72,932
Miscellaneous					106,543	8,137	114,680	30,570
Gain on sale of capital assets								1,144
Transfers					304,906	(304,906)		
Payments from component units					10,108		10,108	
Payments from primary government								282,831
Total general revenues and transfers					<u>3,301,924</u>	<u>(284,632)</u>	<u>3,017,292</u>	<u>387,477</u>
Change in net assets					(49,068)	8,287	(40,781)	142,115
Net assets - beginning as restated					1,031,985	160,057	1,192,042	1,875,286
Net assets - ending					<u>\$ 982,917</u>	<u>\$ 168,344</u>	<u>\$ 1,151,261</u>	<u>\$ 2,017,401</u>

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

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2007
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 144,827	\$ 18,851	\$	\$ 382,145	\$ 545,823
Funds on deposit with fiscal agent			227,099	74,056	301,155
Investments				327	327
Restricted investments				72,545	72,545
Receivables (net)	313,487	13,473	72	43,932	370,964
Due from other funds	11,651	2,056	4,101		17,808
Due from component units	359				359
Due from other governments and agencies	125,764	51,535			177,299
Loans to other funds	14,422				14,422
Other assets	42,941			68	43,009
Total assets	\$ 653,451	\$ 85,915	\$ 231,272	\$ 573,073	\$ 1,543,711
Liabilities and Fund Balances					
Liabilities					
Cash overdraft			469	1,617	2,086
Accounts payable	430,987	24,846	10,844	23,407	490,084
Due to other funds				14,800	14,800
Due to component units		3,720			3,720
Loans from other funds				8,422	8,422
Deferred revenue	22,962	24,206			47,168
Other liabilities	55,336	324		304	55,964
Total liabilities	509,285	53,096	11,313	48,550	622,244
Fund Balances					
Reserved for:					
Budget reserve	78,659				78,659
Appropriations carried forward	65,507				65,507
Debt			9,875	75,679	85,554
Transportation capital projects		29,877			29,877
Employment insurance programs				145,176	145,176
Unreserved, reported in:					
Special revenue funds		2,942		152,540	155,482
Capital projects funds			210,084	149,942	360,026
Permanent fund				1,186	1,186
Total fund balances	144,166	32,819	219,959	524,523	921,467
Total liabilities and fund balances	\$ 653,451	\$ 85,915	\$ 231,272	\$ 573,073	\$ 1,543,711

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Balance Sheet of the Governmental Funds
 to Statement of Net Assets for Governmental Activities
 June 30, 2007
 (Expressed in Thousands)

Fund balance - total governmental funds \$ 921,467

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	4,055,948	
Accumulated depreciation	(1,454,884)	
	2,601,064	2,601,064

Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.

Compensated absences	(77,175)	
Bonds payable	(2,209,512)	
Net premium/discount and deferred amount on refunding	(26,127)	
Cost of issuance	9,492	
Obligations under capital leases	(256,865)	
Premium	(6,167)	
Cost of issuance	1,117	
Interest payable	(21,589)	
Other Liabilities	(56,867)	
	(2,643,693)	(2,643,693)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Receivables	21,951	
Due from component units	20,000	
Deferred revenue	38,668	
	80,619	80,619

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.

Net assets - total governmental activities	\$	921,467
		23,460
		982,917

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,529,241	\$ 141,138	\$	\$ 177,905	\$ 2,848,284
Licenses, fines, sales, and services	242,560			183	242,743
Departmental restricted revenue	109,184	875			110,059
Federal grants	1,629,715	239,621			1,869,336
Income from investments	2,611	488	13,665	19,304	36,068
Other revenues	32,726	7,292		44,646	84,664
Total revenues	4,546,037	389,414	13,665	242,038	5,191,154
Expenditures:					
Current:					
General government	633,893			172,972	806,865
Human services	2,512,286				2,512,286
Education	1,267,255				1,267,255
Public safety	396,029				396,029
Natural resources	81,518				81,518
Transportation		310,019			310,019
Capital outlays			110,503	159,047	269,550
Debt service:					
Principal	79,954	1,388	28,190	6,220	115,752
Interest and other charges	61,396	311	22,950	43,870	128,527
Total expenditures	5,032,331	311,718	161,643	382,109	5,887,801
Excess (deficiency) of revenues over (under) expenditures	(486,294)	77,696	(147,978)	(140,071)	(696,647)
Other financing sources (uses):					
Bonds and notes issued				314,852	314,852
Refunding bonds issued				74,835	74,835
Proceeds from the sale of Certificates of Participation				45,325	45,325
Premium and accrued interest				9,930	9,930
Operating transfers in	481,915	35,397	53,591	257,982	828,885
Payments from component units	10,090	18			10,108
Other	18,387			48	18,435
Payment to refunded bonds escrow agent				(78,198)	(78,198)
Operating transfers out	(83,129)	(104,353)		(335,149)	(522,631)
Total other financing sources (uses)	427,263	(68,938)	53,591	289,625	701,541
Net change in fund balances	(59,031)	8,758	(94,387)	149,554	4,894
Fund balances - beginning	203,197	24,061	314,346	374,969	916,573
Fund balances - ending	\$ 144,166	\$ 32,819	\$ 219,959	\$ 524,523	\$ 921,467

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2007
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 4,894

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	318,076
Depreciation expense	(106,819)
Loss on disposal of assets	(12,437)
	198,820

198,820

Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Debt service	
Principal	115,752
Payment to escrow agent	72,930
Interest and other charges	9,288
Proceeds	(435,012)
Deferral of premium/discount	(7,128)
Amortization of premium/discount	14,654
Deferral of issuance costs	2,343
Amortization of issuance costs	(2,538)
	(229,711)

(229,711)

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	(5,754)
Program expenses	(2,330)
Program revenue	(914)
Capital grant revenue	(1,491)
General revenue - taxes	(5,456)
General revenue-misc	3,453
	(12,492)

(12,492)

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.

(10,579)

Change in net assets - total governmental activities

\$ (49,068)

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, 2007
(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	\$ 12,088	\$ 2,262	\$ 5,504	\$ 19,854	\$ 36,422
Restricted cash and cash equivalents		14,514		14,514	
Funds on deposit with fiscal agent			182,391	182,391	
Receivables (net)	8,577	947	50,256	59,780	3,886
Due from other funds					5,146
Due from other governments and agencies			1,395	1,395	
Inventories	970			970	2,242
Other assets	482	279		761	5,923
Total current assets	<u>22,117</u>	<u>18,002</u>	<u>239,546</u>	<u>279,665</u>	<u>53,619</u>
Noncurrent assets:					
Restricted investments		43,791		43,791	
Capital assets - nondepreciable		70,700		70,700	
Capital assets - depreciable (net)	1,139	96,924		98,063	3,410
Other assets		3,821		3,821	
Total noncurrent assets	<u>1,139</u>	<u>215,236</u>	<u>239,546</u>	<u>216,375</u>	<u>3,410</u>
Total assets	<u>23,256</u>	<u>233,238</u>	<u>239,546</u>	<u>496,040</u>	<u>57,029</u>
Liabilities					
Current Liabilities:					
Cash overdraft					2,692
Accounts payable	12,642	5,977		18,619	22,068
Due to other funds	2,990	1,500	1,788	6,278	1,876
Due to other governments and agencies			1,668	1,668	
Loans from other funds					6,000
Deferred revenue	182	1,535		1,717	
Other current liabilities	2,096	2,534		4,630	
Bonds payable		9,163		9,163	
Obligations under capital leases					933
Obligation for unpaid prize awards	5,971			5,971	
Total current liabilities	<u>23,881</u>	<u>20,709</u>	<u>3,456</u>	<u>48,046</u>	<u>33,569</u>
Noncurrent Liabilities:					
Deferred revenue	9,375	181		9,556	
Bonds payable		269,035		269,035	
Other liabilities		1,059		1,059	
Total noncurrent liabilities	<u>9,375</u>	<u>270,275</u>	<u>3,456</u>	<u>279,650</u>	<u>33,569</u>
Total liabilities	<u>33,256</u>	<u>290,984</u>	<u>3,456</u>	<u>327,696</u>	<u>33,569</u>
Net Assets					
Invested in capital assets, net of related debt	1,139	(110,574)		(109,435)	3,410
Restricted for:					
Debt		58,305		58,305	
Employment insurance programs			236,090	236,090	
Unrestricted	(11,139)	(5,477)		(16,616)	20,050
Total net assets	<u>\$ (10,000)</u>	<u>\$ (57,746)</u>	<u>\$ 236,090</u>	<u>\$ 168,344</u>	<u>\$ 23,460</u>

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,806,218	\$ 18,816	\$ 202,862	\$ 2,027,896	\$ 300,252
Grants			4,607	4,607	
Miscellaneous		435	139	574	
Total operating revenues	1,806,218	19,251	207,608	2,033,077	300,252
Operating expenses:					
Personal services	4,451	12,005		16,456	9,731
Supplies, materials, and services	194,316	8,906		203,222	300,794
Prize awards	1,288,210			1,288,210	
Depreciation and amortization	262	7,166		7,428	364
Benefits paid			203,624	203,624	
Total operating expenses	1,487,239	28,077	203,624	1,718,940	310,889
Operating income (loss)	318,979	(8,826)	3,984	314,137	(10,637)
Nonoperating revenues (expenses):					
Interest revenue		3,416	8,721	12,137	1,471
Other nonoperating revenue	2,636		5,501	8,137	
Interest expense		(14,782)		(14,782)	
Other nonoperating expenses			(6,436)	(6,436)	(65)
Total nonoperating revenue (expenses)	2,636	(11,366)	7,786	(944)	1,406
Income (loss) before transfers	321,615	(20,192)	11,770	313,193	(9,231)
Transfers in		20,147	1,297	21,444	
Transfers out	(320,990)		(5,360)	(326,350)	(1,348)
Change in net assets	625	(45)	7,707	8,287	(10,579)
Total net assets - beginning as restated	(10,625)	(57,701)	228,383	160,057	34,039
Total net assets - ending	\$ (10,000)	\$ (57,746)	\$ 236,090	\$ 168,344	\$ 23,460

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I.			Internal	
	R.I. State Lottery	Convention Center	Employment Security	Totals	Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 1,812,858	\$ 18,555	\$ 201,838	\$ 2,033,251	\$ 301,762
Cash received from grants			4,607	4,607	
Cash payments to suppliers for goods and services	(5,057)	(8,671)		(13,728)	(301,844)
Cash payments to employees for services	(4,431)	(11,990)		(16,421)	(9,640)
Cash payments to prize winners	(1,296,403)			(1,296,403)	
Cash payments for commissions	(187,032)			(187,032)	
Cash payments for benefits			(203,624)	(203,624)	
Other operating revenue (expense)			864	864	1,501
Net cash provided by (used for) operating activities	319,935	(2,106)	3,685	321,514	(8,221)
Cash flows from noncapital financing activities:					
Loans from other funds					3,950
Repayment of loans to other funds					(3,500)
Operating transfers in		21,647	1,297	22,944	3,812
Operating transfers out	(319,099)		(5,296)	(324,395)	(5,160)
Net transfers from (to) fiscal agent			4,380	4,380	
Negative cash balance implicitly financed					2,691
Repayment of prior year negative cash balance implicitly financed					(2,779)
Net cash provided by (used for) noncapital financing activities	(319,099)	21,647	381	(297,071)	(986)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(7,391)		(7,391)	(109)
Interest paid on capital obligations		(13,932)		(13,932)	
Acquisition of capital assets	(86)	(17,814)		(17,900)	(352)
Proceeds from bonds					
Net cash provided by (used for) capital and related financing activities	(86)	(39,137)		(39,223)	(461)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		13,942		13,942	
Interest on investments	1,412	3,420		4,832	
Net cash provided by (used for) investing activities	1,412	17,362		18,774	
Net increase (decrease) in cash and cash equivalents	2,162	(2,234)	4,066	3,994	(9,668)
Cash and cash equivalents, July 1	9,926	19,010	1,438	30,374	46,090
Cash and cash equivalents, June 30	\$ 12,088	\$ 16,776	\$ 5,504	\$ 34,368	\$ 36,422
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	318,979	(8,826)	3,984	314,137	(10,637)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	262	7,166		7,428	364
Other revenue (expense) and operating transfer in (out)	598		725	1,323	1,501
Net changes in assets and liabilities:					
Receivables, net	(842)	(472)	(1,024)	(2,338)	98
Inventory	51			51	634
Prepaid items		82		82	(169)
Other assets	(211)	9		(202)	
Accounts and other payables	1,936	499		2,435	(101)
Accrued expenses	353	(340)		13	89
Deferred revenue	(135)	(224)		(359)	
Prize awards payable	(1,056)			(1,056)	
Total adjustments	956	6,720	(299)	7,377	2,416
Net cash provided by (used for) operating activities	\$ 319,935	\$ (2,106)	\$ 3,685	\$ 321,514	\$ (8,221)

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 11,376	\$	\$ 19,300
Deposits held as security for entities doing business in the State			66,438
Receivables			
Contributions	29,163		
Due from state for teachers	29,259		
Miscellaneous	3,656		4,311
Total receivables	<u>62,078</u>		<u>4,311</u>
Investments, at fair value			
Equity in Short-Term Investment Fund	10,725		
Equity in Pooled Trust	8,422,155		
Other investments		2,476	
Total investments before lending activities	<u>8,432,880</u>	<u>2,476</u>	
Invested securities lending collateral	<u>1,329,239</u>		
Property and equipment, at cost, net of accumulated depreciation	<u>9,551</u>		
Total assets	<u>9,845,124</u>	<u>2,476</u>	<u>90,049</u>
Liabilities			
Securities lending liability	1,329,239		
Accounts payable	7,086		4,311
Deposits held for others			85,738
Total liabilities	<u>1,336,325</u>		<u>90,049</u>
Net assets held in trust for pension and other benefits	<u>\$ 8,508,799</u>	<u>\$ 2,476</u>	<u>\$</u>

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 Year Ended June 30, 2007
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 176,599	\$
Employer contributions	262,646	
State contributions for teachers	70,531	
Interest on service credits purchased	3,994	
Total contributions	513,770	
Investment income		
Net appreciation in fair value of investments	1,129,009	205
Interest	111,126	
Dividends	86,541	48
Other investment income	27,702	118
	1,354,378	371
Less investment expense	25,271	
Net income from investing activities	1,329,107	371
Securities Lending		
Securities lending income	69,407	
Less securities lending expense	66,835	
Net securities lending income	2,572	
Total net investment income	1,331,679	371
Total additions	1,845,449	371
Deductions		
Benefits		
Retirement benefits	490,100	
Cost of living adjustment	124,353	
SRA Plus Option	28,943	
Supplemental benefits	1,106	
Death benefits	3,177	
Total benefits	647,679	
Refund of contributions	10,557	
Administrative expense	7,590	
Distribution		50
Total deductions	665,826	50
Change in net assets	1,179,623	321
Net assets held in trust for pension benefits		
Net assets - beginning	7,329,176	2,155
Net assets - ending	\$ 8,508,799	\$ 2,476

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2007

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. The entities that were deemed to be component units were included because the State appoints a voting majority of the entity's governing body and the potential for the entity to provide specific financial benefits to, or 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 also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings

Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 17 Gordon Avenue, Suite 104, Providence, RI 02905.

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

Discretely Presented Component Units

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

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and 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.

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

Rhode Island Housing and Mortgage Finance Corporation (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.

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

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

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has two subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. 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.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905.

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

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

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

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

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

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

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

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

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 The College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

C. Government-wide and Fund Financial Statements

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

primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

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

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

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

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

State of Rhode Island and Providence Plantations
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collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

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

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

Since the activity of the **Intermodal Surface Transportation Fund** (ISTEA) and the GARVEE fund are so closely related and the same personnel are responsible for the accounting and financial reporting for both funds, management has determined that if either fund meets the criteria of a major fund the other fund will also be reported as a major fund.

The State reports the following major funds:

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

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

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

The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking

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garages and related facilities within the City of Providence on behalf of the State. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence.

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

Internal Service Funds. These funds account for, among other things, employee and retiree medical benefits, State fleet management, unemployment compensation, workers' compensation, industrial prison operations, surplus property, telecommunications and other utilities, and records maintenance.

Fiduciary Fund Types:

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

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

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

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

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

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, federal and restricted funds are generally utilized first.

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. Cash overdrafts, if any, are reported as due to other funds along with the applicable due from other funds.

F. Funds on Deposit with Fiscal Agent

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

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G. Investments

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

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, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. The Due From/(To) 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.

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L. Capital Assets

Capital assets, which include land, non-depreciable intangibles, 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. Non-depreciable intangibles consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated 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	\$5,000	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 assets 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 is recorded in the governmental-wide financial statements, as well as the proprietary 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.

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. Bond discounts, premiums, and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the outstanding principal method.

For Proprietary fund types and component unit's bond discounts, premiums, 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 State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(D)).

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. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

Other liabilities includes escrow deposits, accrued salary and fringe benefits for the governmental fund types, accrued interest payable, accrued salaries, accrued vacation and sick leave for the business fund types and escrow deposits, landfill closure costs, accrued expenses, arbitrage and interest payable for the component units.

Q. Fund Balances

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

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

R. Recently Issued Accounting Standards

The State considered the impact of the following GASB statement in fiscal year 2007:

GASB Statement No. 43- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The State will adopt the following new pronouncements in future years:

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GASB Statement No. 45 – *Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions*, effective for the State’s fiscal year ending June 30, 2008.

GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* effective for the State’s fiscal year ending June 30, 2008.

GASB Statement No. 50 – *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, effective for the State’s fiscal year ending June 30, 2008.

The impact of these pronouncements on the State’s financial statements has not been determined.

Note 2. Cash, Cash Equivalents, Investments and Funds in Trust

Cash

Primary Government

At June 30, 2007, the carrying amount of the State's cash deposits was \$172,996,000 and the bank balance was \$208,587,000. Deposits are exposed to custodial credit risk if they are not covered by 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 depositor-government’s name. Of the bank balance, \$950,000 was covered by federal depository insurance and \$137,499,000 was collateralized with securities held by the pledging financial institution, or its agent but not in the State’s name. The remaining amount, \$70,138,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$34,285,000 of certificates of deposit.

During the year, the State issued \$120,000,000 in General Obligation Tax Anticipation Notes for working capital. The notes were repaid in full as of June 30, 2007.

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, 2007.

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Investments

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. 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.

Of the State’s investments equaling \$116,663,000, the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling \$72,545,000. Investment 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 bodies.

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 and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2007, the State’s investments in Citigroup, Morgan Stanley and GE Capital Corporation commercial paper were rated A1+ by Standard and Poors and P1 by Moody’s. The State’s investments in J. P. Morgan Chase, Korean Development and Merrill Lynch commercial paper were rated A1 by Standard and Poors and P1 by Moody’s. The State’s investments in US Government Agency Securities were rated AAA by Moody’s. The State’s investment in mutual funds were rated Aaa by Moody’s. The State’s Investment Agreements are not rated.

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.

The portfolio concentrations (expressed in thousands) are as follows.

Type	Issuer	Amount	Percentage
Commercial Paper	Morgan Stanley CP	51,555	6.0%
US Government Agency Securities	Federal Home Loan Bank	44,494	5.2%
Investment Agreements	AIG Matched Funding Corp	164,936	19.1%
Repurchase Agreements	Bank of New York Trust Co.	43,791	5.1%

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Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State's investments (expressed in thousands) at June 30, 2007 are as follows.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	\$ 58,292	\$ 58,292	\$ 0	\$ 0	\$ 0
Money Market	286,778	286,778	0	0	0
Commercial Paper	135,391	135,391	0	0	0
Repurchase Agreements	79,820	36,029	43,791	0	0
	560,281	\$ 516,490	\$ 43,791	\$ 0	\$ 0
Less amounts classified as cash equivalents	443,616				
Investments	\$ 116,665				

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2007 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Money Market	\$ 93,761	93,761	0	0	0
Investment Agreements	207,395	0	203,305	0	4,090
Funds on deposit with fiscal agent	\$ 301,155	\$ 93,761	\$ 203,305	\$ 0	\$ 4,090

The State's investments in money market mutual funds as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund rated AAAM by Standard & Poors and with an average maturity of 30 days; First American Treasury Obligations Fund rated AAAM by Standard & Poors and with an average maturity of 3 days; and JPMorgan 100% US Treasury Securities Money Market Fund rated AAAM-G by Standard and Poors with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt proceeds are held in trust until used for their intended purpose. The trust agreement specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

Fiduciary Funds

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 (JRTB).

Cash

At June 30, 2007, the carrying amounts of the ERS cash deposits was \$11,376,000 and the bank balance was \$11,946,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts, bank money market accounts, overnight repurchase agreements and certificates of deposit (ERS \$1,000,000). Of the bank balance, \$4,782,000 is covered by federal depository insurance. The remaining bank balance of \$7,164,000 is fully collateralized.

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 ERS's deposits were required to be collateralized at June 30, 2007.

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 most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment expense is allocated to each plan based on the plan's units in the Short-term Investment Fund and the Pooled Trust at the end of each month.

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The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2007:

Investment Type	Fair Value
U.S. Government Securities	\$ 560,391
U.S. Government Agency Securities	495,087
Collateralized Mortgage Obligations	51,930
Corporate Bonds	576,196
Domestic Equity Securities	1,195,689
International Equity Securities	1,496,936
Foreign Currencies	32,485
Private Equity	538,178
Real Estate	315,197
Money Market Mutual Fund	560,214
Commingled Funds-Fixed Income	120,122
Commingled Funds - Domestic Equity	2,313,258
Commingled Funds - International Equity	177,197
Investments at Fair Value	8,432,880
Securities Lending Collateral Pool	1,329,239
Total	\$ 9,762,119

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:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman Brothers MBS Fixed Rate Index
- Lehman Corporate Index

At June 30, 2007, no fixed income manager was outside of the policy guidelines.

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The following table shows the ERS's fixed income investments by type, fair value (expressed in thousands) and the effective duration (in years) at June 30, 2007:

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 560,391	5.94
U.S. Government Agency Securities	495,087	5.57
Collateralized Mortgage Obligations	51,930	2.71
Corporate Bonds	576,196	4.88
Total Fixed Income	\$ 1,683,604	5.40

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 32 days. The duration of investments held in a fixed income commingled fund was .17 years.

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 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.

Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager's guidelines is as follows:

- No single industry is expected to represent more than 20% of the portfolio's market value.
- No single issue is expected to represent more than 5% of the portfolio's market value.

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- The portfolio, once fully invested, is expected to include a minimum of 70 individual holdings.
- The portfolio quality is expected to be invested in high yield below investment grade fixed income securities.
- The weighted average credit quality is expected to maintain a minimum rating of "B" using either Moody's or Standard and Poor's credit ratings.

The ERS's exposure to credit risk (expressed in thousands) as of June 30, 2007 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	\$ 21,690	\$ 495,087	\$ 59,534
Aa	106		76,750
A	2,053		155,794
Baa	10,907		103,763
Ba	846		39,571
B			57,741
Not rated	16,328		83,043
Fair Value	<u>\$ 51,930</u>	<u>\$ 495,087</u>	<u>\$ 576,196</u>

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was unrated but held investments with an average quality rating of A-1+ / P-1. The ERS's investment in a fixed income commingled fund was unrated but held investments with an average quality rating of AA-.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an 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 and, therefore, there is no concentration of credit risk.

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, 2007 all securities were registered in the name of the ERS and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

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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 20%. 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 (expressed in thousands) at June 30, 2007, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ 539	\$ 95,301	\$	\$ 95,840
Brazilian Real		6,535		6,535
Canadian Dollar	853	68,101	5,674	74,628
Danish Krone	6	2,794		2,800
Euro Currency	7,975	529,436	59,697	597,108
Hong Kong Dollar	1,111	36,386		37,497
Hungarian Forint	11	1,891		1,902
Indonesian Rupiah	333	1,623		1,956
Israeli Shekel		3,464		3,464
Japanese Yen	1,970	273,187		275,157
Malaysian Ringitt		3,736		3,736
Mexican Peso	15	4,493		4,508
New Zealand Dollar	21	5,993		6,014
Norwegian Krone	2	4,735		4,737
Pound Sterling	2,403	296,929		299,332
Russian Ruble		2,519		2,519
Singapore Dollar	242	19,939		20,181
South African Rand	163	4,463		4,626
South Korean Won	2,201	22,768		24,969
Swedish Krona	14,363	15,453	6,084	35,900
Swiss Franc	277	74,380		74,657
Thailand Dollar		18,680		18,680
Thailand Baht		4,129		4,129
Total	<u>\$ 32,485</u>	<u>\$ 1,496,935</u>	<u>\$ 71,455</u>	<u>\$ 1,600,875</u>

The ERS also had exposure to foreign currency risk through its investment in international commingled equity funds which totaled \$177,197,000.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions and futures contracts. 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. These contracts involve risk in excess of

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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. By policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the 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, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

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

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

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2007 the investment pool had a weighted average maturity of 48 days and an average final maturity of 168 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

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At June 30, 2007, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were \$1,364,492,149 (fair value), and the collateral received for those securities on loan was \$1,399,810,228 (fair value).

Private Purpose Trusts

The private purpose trusts had investments of \$2,476,000 in a mutual fund. The average maturity of the fund was not available.

Note 3. Receivables

Receivables at June 30, 2007 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 279,410	\$ 143,137	\$	\$	\$ (87,110)	\$ 335,437
Intermodal Surface Transportation	12,473			1,000		13,473
Other governmental	44,676	944			(1,616)	44,004
Internal Service		3,886				3,886
Total - governmental activities	\$ 336,559	\$ 147,967	\$	\$ 1,000	\$ (88,726)	\$ 396,900
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 7,355	\$ 7,107				
Business-type activities:						
State Lottery	\$	\$ 8,889	\$	\$	\$ (312)	\$ 8,577
Convention Center		1,354			(407)	947
Employment Security	50,004	10,560			(10,308)	50,256
Total - business-type activities	\$ 50,004	\$ 20,803	\$	\$	\$ (11,027)	\$ 59,780
Component Units	\$	\$ 90,610	\$ 32,227	\$ 1,548,818	\$ (66,087)	\$ 1,605,568

Component Units

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

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Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2007, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	\$ 11,651	\$
Intermodal Surface Transportation Fund	2,056	
GARVEE	4,101	
Other		
Bond Capital		11,013
RI Temporary Disability Insurance		1,482
COPS		2,305
Total Other		14,800
Total Governmental	17,808	14,800
Proprietary Funds		
Enterprise		
RI Lottery		2,990
RI Convention Center Authority		1,500
Employment Security Trust Fund		1,788
Total Enterprise		6,278
Internal Service		
Assessed Fringe Benefits		443
Central Utilities	528	
Central Mail		15
State Telecommunications		79
Central Pharmacy	766	
Central Laundry	71	
Automotive Maintenance		317
Central Warehouse		301
Correctional Industries	528	
Health Insurance Active		715
Records Center		6
Health Insurance Retiree	3,253	
Total Internal Service	5,146	1,876
Totals	\$ 22,954	\$ 22,954

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:				
Land	\$ 332,092	\$ 21,045	\$ (14,150)	\$ 338,987
Works of Art		135		135
Intangibles	106,146	5,391		111,537
Construction in progress	* 413,619	270,970	(87,584)	597,005
Total capital assets not being depreciated	851,857	297,541	(101,734)	1,047,664
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	438,954	84,260	(2,481)	520,733
Building Improvements	208,343		(1)	208,342
Furniture and equipment	204,521	18,778	(2,638)	220,661
Intangibles	1,196	7,232		8,428
Infrastructure	* 2,051,013	1,732		2,052,745
Total capital assets being depreciated	2,907,727	112,002	(5,120)	3,014,609
Less accumulated depreciation for:				
Land improvements	2,522	185		2,707
Buildings	* 153,717	18,897	(1,631)	170,983
Building Improvements	126,361			126,361
Furniture and equipment	* 141,606	18,523	(1,644)	158,485
Intangibles	654	936	13	1,603
Infrastructure	* 927,769	69,891		997,660
Total accumulated depreciation	1,352,629	108,432	(3,262)	1,457,799
Total capital assets being depreciated, net	1,555,098	3,570	(1,858)	1,556,810
Governmental activities capital assets, net	\$ 2,406,955	\$ 301,111	\$ (103,592)	\$ 2,604,474

* Certain beginning balances have been restated; see Note 18 Section C.

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

General government	\$ 8,017
Human services	8,393
Education	2,942
Public safety	10,961
Natural resources	3,858
Transportation	74,261
Total depreciation expense - governmental activities	\$ 108,432

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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 45,558	\$	\$	\$ 45,558
Construction in progress	3,273	22,022	(153)	25,142
Total capital assets not being depreciated	48,831	22,022	(153)	70,700
Capital assets being depreciated:				
Buildings	161,258	8		161,266
Machinery and equipment	11,275	2,435	(650)	13,060
Total capital assets being depreciated	172,533	2,443	(650)	174,326
Less accumulated depreciation	69,772	7,132	(640)	76,263
Total capital assets being depreciated, net	102,761	(4,689)	(10)	98,063
Business-type activities capital assets, net	\$ 151,592	\$ 17,333	\$ (163)	\$ 168,763

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 83,881	\$ 5,903	\$ (2,560)	\$ 87,224
Construction in progress	446,032	266,051	(132,516)	579,567
Total capital assets not being depreciated	529,913	271,954	(135,076)	666,791
Capital assets being depreciated:				
Buildings	1,026,032	114,032	(1,310)	1,138,754
Land improvements	144,756	11,183	(284)	155,655
Machinery and equipment	266,284	15,371	(2,532)	279,123
Infrastructure	325,167	15,332	(593)	339,906
Total capital assets being depreciated	1,762,239	155,918	(4,719)	1,913,438
Less accumulated depreciation for:				
Buildings	398,643	39,401	(840)	437,204
Land improvements	76,512	10,418	(256)	86,674
Machinery and equipment	152,250	20,160	(2,100)	170,310
Infrastructure	97,809	6,153	(225)	103,737
Total accumulated depreciation	725,214	76,132	(3,421)	797,925
Total capital assets being depreciated, net	1,037,025	79,786	(1,298)	1,115,513
Total capital assets, net	\$ 1,566,938	\$ 351,740	\$ (136,374)	\$ 1,782,304

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Note 6. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2007, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2008	\$ 95,736	\$ 108,073	\$ 8,975	\$ 14,286	\$ 189,847	\$ 163,984
2009	100,709	100,569	9,285	13,853	137,245	158,356
2010	88,709	95,533	9,740	13,408	94,210	153,367
2011	83,295	91,298	10,205	12,938	93,187	149,474
2012	110,350	87,055	10,720	12,431	94,289	142,904
2013 - 2017	492,965	356,273	61,585	53,565	567,896	650,288
2018 - 2022	283,080	255,123	77,345	36,993	576,058	520,139
2023 - 2027	214,655	184,097	49,295	19,353	504,200	388,829
2028 - 2032	168,260	167,686	24,345	10,185	533,405	271,527
2033 - 2037		116,156	18,440	2,279	525,515	152,181
2038 - 2042	371,700	116,156			359,285	38,512
2043 - 2047					39,415	6,009
2048 - 2052	197,006	2,637,174			4,050	153
	<u>\$ 2,206,465</u>	<u>\$ 4,315,193</u>	<u>\$ 279,935</u>	<u>\$ 189,291</u>	<u>\$ 3,718,602</u>	<u>\$ 2,795,723</u>

Primary Government

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

In September 2006, the State issued \$74,835,000 Consolidated Capital Development Loan of 2006, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2007 through 2023. The proceeds were used to advance refund portions of the 1996 Refunding Series, 1998A, 2000A, 2001C, and 2002B, totaling \$72,930,000. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 15 years by \$3,638,050 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,745,687.

Included in the current interest bonds is \$16,365,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the

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mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue 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 cents (\$.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue 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.

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

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

deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended, June 30, 2007, TSFC utilized \$6,220,000 of excess collections to early redeem an equal amount of outstanding bonds.

In June of 2007, TSFC issued \$197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement. The 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. At maturity, the bond redemption values represent accreted yields ranging from 6.00% to 6.75%. The bonds are subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the issue amount plus accreted interest, without premium. The bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds.

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

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

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of \$101,315,000. The bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS PaineWebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the

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RICCA may convert the bonds to fixed rate bonds. The bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the bondholders for the year ended June 30, 2007 was \$2,299,533. The bonds mature in varying installments through May 15, 2027; \$61,245,000 of these bonds remain outstanding at June 30, 2007.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the year ended June 30, 2007 under the Swap Agreement was \$2,480,164. Total interest received by the RICCA from UBSAG for the years ended June 30, 2007 under the Swap Agreement was \$2,267,347. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2007, the fair value of RICCA's liability for the interest rate swap was approximately \$2,876,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent). The initial purchase price is \$102,480,817, which consists of the original \$101,315,000 of principal plus accrued interest.

The termination date of the standby bond purchase agreement is the later of November 1, 2006 or when all principal and interest on any bonds purchased by Dexia have been paid in full. During FY 07, the standby bond purchase agreement was extended through November 1, 2011. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the year ended June 30, 2007 totaled \$106,526.

During August 2005, RICCA issued Refunding Revenue Bonds, 2005 Series A, in an aggregate principal amount of \$34,610,000 for the purpose of refunding certain of the RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the costs of issuance. The 2005 Series A Bonds mature between 2006 and 2023 and bear interest at rates

ranging from 3.5% to 5%. Proceeds from this refunding were used to acquire direct obligations guaranteed by the United States of America (the "Escrow Securities") the principal of and interest on which, when due, provided money sufficient to pay on August 31, 2005, the redemption price of the 1993 Series C Refunding bonds maturing in years 2008 through 2023, inclusive of interest on the 1993 Series C Refunding Bonds on and prior to such redemption date. As a result of this in-substance defeasance, total debt service requirements were reduced by approximately \$2,300,000.

During June 2006, RICCA issued Civic Center Revenue Bonds, 2006 Series A, (federally taxable) (2006 Series A Bonds) in an aggregate principal amount of \$92,500,000 for the purpose of (i) financing or refinancing the acquisition, renovation, equipping, improvement and redevelopment of the Center, (ii) redeeming the \$33,000,000 Civic Center Revenue Bonds, 2005 Series A previously issued by RICCA, (iii) paying the costs of issuance, and (iv) paying capitalized interest on the 2006 Series A Bonds. The bonds mature between 2008 and 2035 and bear interest at rates ranging from 5.38% to 6.06%.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 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.

RICCA is limited to the issuance of bonds or notes in an aggregate principal amount of \$305,000,000. At June 30, 2007, total outstanding bond and note indebtedness equals \$281,300,000.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not received during FY07.

At June 30, 2007 general obligation bonds authorized by the voters and unissued amounted to \$408,580,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are

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payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

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

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

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

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 Intermodal 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 in fiscal years 2007-2010. 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 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2007, RIAC had \$83,232 in borrowings under this agreement.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of \$70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily,

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commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

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

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

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$12,840,000 at June 30, 2007 (See Note 18B). The insured mortgages are guaranteed by the State.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds.

URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and I) a fixed rate on the swap equal to 3.691% and IIO in return URI receives the of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds.

All payments under the swap agreement are netted and paid on a monthly basis each on the fifteenth (15th), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the

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effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a fair market value \$1,162,670. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from MLCS, the swap exposes URI to basis risk. As of June 30, 2007, the Bond Market Municipal Swap Index was 3.73% whereas 67.0% of 1 month LIBOR plus 0.12% was 3.56%.

As of June 30, 2007, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2007 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.	\$ 1,920
R.I. Housing and Mortgage Finance Corporation bank notes, 4.21% to 5.54% interest, payable through 2007.	52,015
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	775
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	1,875
	<u>56,585</u>
	<u>(52,784)</u>
Less: current payable	<u>\$ 3,801</u>

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$269,691,000.

D. 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, 2007 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, 2007.

Fiscal Year Ending June 30	COPS
2008	\$ 32,198
2009	32,826
2010	31,357
2011	26,194
2012	24,901
2013 - 2017	109,221
2018 - 2022	67,062
2023 - 2027	27,654
Total future minimum lease payments	<u>351,413</u>
Amount representing interest	(94,548)
Present value of future minimum lease payments	<u>\$ 256,865</u>

E. Compensated Absences

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

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

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, this section includes special obligation notes with R.I. Housing and Mortgage Finance Corporation.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2007, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	\$ 842,243	\$ 193,620	\$ (122,496)	\$ 913,367	\$ 45,107	\$ 868,260
Capital appreciation bonds	304		(186)	118	109	9
Accreted interest on capital appreciation bonds	6,119		(3,073)	3,046	3,046	
Premium and deferred amount on refunding	32,550	5,964	(6,714)	31,800		31,800
	<u>881,216</u>	<u>199,584</u>	<u>(132,469)</u>	<u>948,331</u>	<u>48,262</u>	<u>900,069</u>
RIEDC Grant Anticipation Bonds	338,380		(24,560)	313,820	28,315	285,505
Premium	27,857		(7,058)	20,799		20,799
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	79,920		(3,630)	76,290	3,730	72,560
Premium	1,635		(133)	1,502		1,502
Revenue bonds - RIRBA	60,320		(17,610)	42,710	18,475	24,235
Net premium/discout and deferred amount on refunding	591		(842)	(251)		(251)
Tobacco Settlement Asset-Backed Bonds	669,375	197,006	(6,220)	860,161		860,161
Net premium/discout	(28,160)		437	(27,723)		(27,723)
Bonds payable	<u>2,031,134</u>	<u>396,590</u>	<u>(192,085)</u>	<u>2,235,639</u>	<u>98,782</u>	<u>2,136,857</u>
Certificates of Participation (COP)	226,755	45,325	(15,215)	256,865	20,735	236,130
Premium	5,347	1,164	(344)	6,167		6,167
Obligations under capital leases	232,102	46,489	(15,559)	263,032	20,735	242,297
Compensated absences	71,421	65,491	(58,804)	78,108	50,657	27,451
Other long-term liabilities	49,352	11,729	(4,214)	56,867	3,730	53,137
	<u>\$ 2,384,009</u>	<u>\$ 520,299</u>	<u>\$ (270,662)</u>	<u>\$ 2,633,646</u>	<u>\$ 173,904</u>	<u>\$ 2,459,742</u>
Business type activities						
Revenue bonds	\$ 287,185	\$	\$ (7,250)	\$ 279,935	\$ 8,975	\$ 270,960
Add: bond premium	4,558		(334)	4,224		4,224
Less: issuance discounts	(852)	118		(734)		(734)
Deferred amounts on refunding	(7,360)	774		(6,586)		(6,586)
Bonds payable	<u>283,531</u>	<u>892</u>	<u>(7,584)</u>	<u>276,839</u>	<u>8,975</u>	<u>267,864</u>
Other long-term liabilities		1,500	(141)	1,359	188	1,171
	<u>\$ 283,531</u>	<u>\$ 2,392</u>	<u>\$ (7,725)</u>	<u>\$ 278,198</u>	<u>\$ 9,163</u>	<u>\$ 269,035</u>

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H. 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. On June 30, 2007, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 314,609
R.I. Convention Center Authority	37,840
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	295,970
R.I. Economic Development Corporation	64,300
R.I. Turnpike and Bridge Authority	29,000

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2007 was \$118,000,000, \$2,108,268,690 and \$938,651,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

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Note 7. Net Assets/Fund Balances

Governmental Activities Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities	
Deficit	\$ (1,106,354)	
General Revenue		
Appropriations carried forward	3,640	General revenues carried forward for original purpose
Internal Service Funds	20,050	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (1,082,664)</u>	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is \$1,276,735,000 of such debt, which causes the above deficit.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 95,376	\$ 65,388	\$ (82,105)	\$ 78,659
Appropriations carried forward				
General revenue	17,381	3,640	(17,381)	3,640
Departmental restricted revenue	42,994	51,777	(42,994)	51,777
Other	9,115	10,090	(9,115)	10,090
Total	<u>\$ 164,866</u>	<u>\$ 130,895</u>	<u>\$ (151,595)</u>	<u>\$ 144,166</u>

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

The State transferred \$19,423,000 from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by a general revenue shortfall. Appropriations carried forward, as authorized by the Governor, can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of 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 Tax	\$ 1,065,367	\$ 1,067,426
General Business Taxes:		
Business Corporation Tax	148,053	148,038
Non-resident Contractor Tax	96	96
Gross Earnings Tax-Public Utilities	102,109	102,106
Income Tax-Financial Institutions	4,423	(2,777)
Tax on Insurance Companies	56,624	56,619
Tax on Deposits-Banking Institutions	1,674	1,663
Health Care Provider Assessment	11,787	11,791
Nursing Facilities Provider Assessments	36,183	36,235
Sub-total - General Business Taxes	<u>360,949</u>	<u>353,771</u>
Sales and Use Taxes:		
Sales and Use Tax	860,466	860,341
Providence Place Sales Tax	12,738	12,738
Motor Vehicle Tax	43,740	43,740
Rental Vehicle Surcharge	3,139	3,140
Fuel Use Tax on Motor Carriers	1,312	1,329
Cigarette Tax	117,949	117,383
Smokeless Tobacco Tax	2,532	2,595
Alcoholic Beverage Import Fees	10,680	10,680
Tax on Mfg. of Beers, Liquors, etc.	26	26
Sub-total - Sales and Use Taxes	<u>1,052,582</u>	<u>1,051,972</u>
Other Taxes:		
Inheritance Tax	34,683	34,956
Simulcast Wagering	1,918	1,918
Dog Racing - Pari-mutuel Betting	989	989
Dog Racing - Tax on Breakage	15	15
Realty Transfer Tax	12,721	12,721
Mobile Home Conveyance Tax	17	17
Sub-total - Other Taxes	<u>50,343</u>	<u>50,616</u>
Total - General Fund	<u>2,529,241</u>	<u>2,523,785</u>
Intermodal Surface Transportation Fund		
Gasoline	141,138	141,138
Other Governmental Funds	177,905	177,905
Total Taxes	<u>\$ 2,848,284</u>	<u>\$ 2,842,828</u>

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Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2007 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 50,762	Debt service and operating assistance
Nonmajor Funds		
Tobacco Settlement Trust	42,500	Operating assistance
Bond Capital	60,099	Debt service and capital projects
RI Temporary Disability Insurance	2,105	Operating assistance
COPS	48	Art Projects
Business-Type Activities		
Lottery	320,990	Net income
Employment Security	5,360	Operating assistance
Internal Service		
Assessed Fringe Benefits	51	Charges for Information Technology Services
ISTEA		
Bond Capital	35,397	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,591	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	62,682	Debt service and capital projects
Economic Policy Council		
General	300	Operating assistance
Tobacco Settlement Trust		
Tobacco Settlement Financing Corporation	195,000	Proceeds from purchase of future revenue stream
Total Governmental Activities	828,885	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,297	Reimbursement for State employee's unemployment compensation
Convention Center		
General	20,147	Debt service
Total operating transfers	\$ 850,329	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,006,000 for the fiscal year ended June 30, 2007.

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, 2007:

Fiscal Year Ending June 30	
2008	\$ 11,437
2009	10,405
2010	9,389
2011	6,923
2012	5,127
2013 - 2017	18,568
2018 - 2022	3,941
Total	\$ 65,790

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, 2007 are listed below (expressed in thousands).

Major funds	
General	\$ 13,989
ISTEA	234,742
GARVEE	108,370
Total major funds	357,101
Other governmental funds	37,187
Total encumbrances outstanding	\$ 394,288

The primary government is committed at June 30, 2007 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond 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, 2007 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

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

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The R.I. Convention Center Authority (RICCA) has several active construction projects as of June 30, 2007, the most significant of which is the renovation of the Dunkin' Donuts Center. The Authority's construction related commitments at year-end are \$45,904,000. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

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

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 operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than \$125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than \$20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$26,553,000 which is expected to be funded from current available resources and future operations. As of June 30, 2007, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately \$5,325,000.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$37,577,000 at June 30, 2007.

A portion of the R.I. Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,303,000 for remediation expenses through June 30, 2007. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$13,417,000.

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC 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 the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC 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 RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. In addition, the RIRRC began construction of the Phase I and Phase II/III caps. In 2005, RIRRC began landfilling in Phase V and further revised its estimates relating to capping, maintenance and leachate flow costs. In 2006, RIRRC reviewed and revised its estimates relating to closure costs, leachate pretreatment and gas collection system and maintenance costs as required by RIDEM. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$100,500,000 at June 30, 2007.

The liability for closure and postclosure care costs at June 30, 2007 of \$65,755,000 is recorded in the statements of net assets, as noted below, with \$34,700,000 remaining to be

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recognized at June 30, 2007. The detail of the recorded liability (expressed in thousands) is listed below.

Phase V	\$	24,574
Phase IV		14,104
Phases II and III		3,677
Phase I		23,400
	<u>\$</u>	<u>65,755</u>

Based on the estimates of RIRRC engineers, approximately 98% and 55% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2008 for Phase IV and fiscal 2011 for Phase V.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws 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 on the accompanying statement of net assets is \$79,371,584 at June 30, 2007, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases I, II, III, IV, and V and the Superfund remediation liability. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2007 relating to remediation that will be required as a result of the Consent Decree is approximately \$13,089,000.

In October, 2006, RIRRC entered into a construction contract for the development of a portion of its land held for development into an industrial park. The adjusted contract price including approved change orders totaled \$8,009,494. The total contract work completed and capitalized as of June 30, 2007 was \$4,808,779.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$32,413,567 under various loan programs at June 30, 2007.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2007 remaining commitments on these contracts approximated \$10,790,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$5,935,161 at June 30, 2007.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as its share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments. As of June 30, 2007, the remaining amount outstanding and recorded in the Federal Fund is \$368,318, which was paid on August 30, 2007.

The College Crusade of R.I. has committed \$1,293,242 toward scholarships for tuition during the 2007/2008 school year. This represents approximately 339 students for an average award of approximately \$3,815 per student. As of June 30, 2007, the estimated value of the potential future scholarship costs through the year 2020 is estimated to be between \$2,000,000 and \$7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling \$9,371,131 at June 30, 2007 which are expected to be funded from the receipt of State bond proceeds and internal funding.

Note 12. Contingencies

Primary Government

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

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 300 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. General Law § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

Tobacco Settlement Financing Corporation

Litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been

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filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

In April 2005, 2006 and 2007 some of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to a disputed escrow account alleging, that the calculations of amounts due under the agreement were erroneous. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed non-participating manufacturers adjustment. The corporation's share of these disputed payments is approximately \$12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The State and the other affected parties are taking actions consistent with the MSA to arrive at a resolution of these matters.

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.

Federal Grants

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

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2007 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$292,475,181 and \$43,312,462 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State

anticipates paying approximately \$3,019,000 of the debt on the related economic development revenue bonds in fiscal year 2008.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2012, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling \$6,066,750, are derived from the Program Fund. In addition, the R.I. Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2007, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to \$500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

During 2007, the Board of Directors authorized the transfer of \$6,900,000 to supplement amounts available for need-based scholarships under the State's grant program.

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R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2007.

The College Crusade of R.I.

The College Crusade of R.I. has a \$1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter per cent, which was 8.00 % at June 30, 2007. There was an outstanding balance of \$530,000 as of June 30, 2007. Total interest expense for the fiscal year ended June 30, 2007 was \$33,299.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of \$20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in July 2007, whereby the Corporation may borrow up to a maximum outstanding principal sum of \$50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2007, \$7,000,000 is outstanding under these revolving loans.

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), 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 the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be

obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the 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 contributions are withheld from payroll. 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 in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed.

Method Used to Value Investments

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

Funding Policy and Annual Pension Cost

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

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	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	18.40%	31.78%	36.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.57% and 8.02%		
Annual pension cost	\$188,832	\$4,039	\$2,363
Contributions made - state employees	\$118,391	\$4,039	\$2,363
Contributions made - teachers	\$70,531		
Actuarial valuation date	June 30, 2004	June 30, 2004	June 30, 2004
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	25 years	25 years	25 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 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	\$1,500 per annum	3%
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	6/30/05	\$ 114,923	100%	\$ 0
	6/30/06	145,792	100%	0
	6/30/07	188,832	100%	0
State Police Retirement Benefits Trust	6/30/05	2,615	100%	0
	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
Judicial Retirement Benefits Trust	6/30/05	2,057	100%	0
	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts 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 employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to \$13,864,560 during the year ended June 30, 2007.

The Rhode Island Public Transit Authority has a funded 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 2007 totaled \$5,042,462. At January 1, 2007, the most recent valuation date, the total actuarial accrued liability was \$64,592,000 and the actuarial

value of assets was \$41,625,367. The Authority contributed 44.32% of its annual pension cost for fiscal year 2007 and had a net pension obligation of \$1,799,084 at June 30, 2007.

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

Plan Description. The State administers one defined benefit post-employment health care plan- the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

All members of the Employees' Retirement System, including State employees, legislators and certified public school teachers are eligible to receive some form of State sponsored retiree health care benefits. In addition, State judges may purchase the active health care benefit at the active rate and State Police Officers receive the active health care benefits at no cost to the retiree until they reach age 65.

Membership in the RIRHCBP consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits*	9,857
Terminated plan members entitled to receive future benefits but not yet qualifying for benefits	881
Active ERSRI plan members	<u>27,628</u>
Total	38,366

*-Includes retired teachers for whom the State pays the Tier I benefit.

The State provides two types of subsidies for health care benefits. The Tier I subsidy only applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

RIGL Section 36-12-4 governs the provisions of the RIRHCBP.

The RIRHCBP is included as an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to

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the plan. Contributions are recognized when due. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. No provision has been made to fund future benefits to be provided to RIRHCBP members.

As mentioned above, non-Medicare retirees pay the active monthly premium rate and the State pays the difference between the active group rate and the more costly, early retiree rate (The Tier I benefit). Pursuant to RIGL Section 36-12-4 the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit. The retirees' fiscal 2007 contributions are as follows:

Retiree Age Below 60

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
28-34	10%
35+	0%

The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$427.64 (the active plan rate).

Retiree Age from 60 to 65

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
10 – 15	50%
16 – 22	30%
23 – 27	20%
28+	0%

The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$427.64 (the active plan rate).

Retiree Age Greater than 65

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
10 – 15	50%
16 – 19	30%
20 – 27	10%
28+	0%

The monthly premium rate for the Medicare Supplemental plan is \$171.52 for the individual plan, and the monthly premium for the Medicare HMO plan is \$100. Retiree's

can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

Note 15. Deferred Compensation

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

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

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

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. 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, 2007 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	<u>Liability at July 1</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30</u>
Health Insurance Funds				
Liability for				
unpaid claims	\$ 18,388	\$ 214,578	\$ 213,130	\$ 19,836

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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.

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Note 17. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Other assets	\$ 2,048,305	\$ 1,004,096	\$ 37,150	\$ 272,530	\$ 109,343
Capital assets - nondepreciable			15,101	195,978	381,302
Capital assets - depreciable (net)		8	63,568	236,968	222,674
Due from primary government					
Long term debt	1,532,020	889,558	27,838	364,410	429,347
Other liabilities	225,821	38,536	4,569	41,351	14,356
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	10,132	8	47,828	166,756	214,974
Restricted					
Debt service	179,281	75,839	6,089		
Other				87,588	127
Other nonexpendable					
Unrestricted	101,051	163	29,495	45,371	54,515
Operating expenses	87,567	63,203	6,350	72,139	41,845
Depreciation, depletion, and amortization	2,944	346	2,044	16,823	6,803
Program revenue					
Charges for services	77,538	54,932	12,095	56,187	58,657
Operating grants and contributions		1,778		(499)	49
Capital grants and contributions				19,851	6
Net program (expense) revenue	(12,973)	(6,839)	3,701	(13,423)	10,064
Interest and investment earnings	24,644	13,908	2,274	10,132	2,849
Miscellaneous		(3,000)	(26)	9,156	75
Payments from primary government					19,030
Change in net assets	11,671	4,069	5,949	26,743	12,988
Beginning net assets as restated	278,793	71,941	77,463	272,972	256,628
Ending net assets	290,464	76,010	83,412	299,715	269,616

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIFC
Other assets	\$ 9,496	\$ 130,845	\$ 26,501	\$ 16,495	\$ 1,216
Capital assets - nondepreciable		7,042	307	6,536	
Capital assets - depreciable (net)	32	55,649	1,061	82,948	
Due from primary government				3,720	
Long term debt		18,033	372		
Other liabilities	294	92,246	1,947	21,920	773
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	32	75,814	1,369	89,484	
Restricted					
Debt service		1,796			
Other			24,181		
Other nonexpendable					
Unrestricted	9,202	5,647		(1,705)	443
Operating expenses	1,799	53,656	24,077	83,675	33
Depreciation, depletion, and amortization	33	13,814	241	10,537	
Program revenue					
Charges for services	2,118	69,783	16,541	31,646	119
Operating grants and contributions			359	16,069	
Capital grants and contributions				5,783	
Net program (expense) revenue	286	2,313	(7,418)	(40,714)	86
Interest and investment earnings	210	7,472	1,218	423	28
Miscellaneous		(3,300)		3,020	(150)
Payments from primary government			6,708	34,108	
Change in net assets	490	5,779	508	(3,155)	(36)
Beginning net assets as restated	8,744	77,478	25,042	90,934	479
Ending net assets	9,234	83,257	25,550	87,779	443

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Other assets	\$ 938,915	\$ 2,235	\$ 6,817	\$ 1,446	\$ 6,968
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	35	368	1	6,345	38
Due from primary government					
Long term debt	592,708		11,092	2,356	
Other liabilities	9,666	80	749	376	2,556
Due to primary government				1,011	
Net assets:					
Invested in capital assets, net of related debt	35	549		5,030	38
Restricted					
Debt service	318,427				
Other			(5,241)	102	337
Other nonexpendable					
Unrestricted	18,114	2,155	218	(263)	4,075
Operating expenses	27,799	80	508	4,396	7,102
Depreciation, depletion, and amortization	351	14	107	947	25
Program revenue					
Charges for services	31,522	726	1,211	2,785	5,156
Operating grants and contributions	15,015		(2,384)		
Capital grants and contributions					
Net program (expense) revenue	18,387	632	(1,788)	(2,558)	(1,971)
Interest and investment earnings		17	193	150	175
Miscellaneous			6	287	
Payments from primary government				2,179	1,409
Change in net assets	18,387	649	(1,589)	58	(387)
Beginning net assets as restated	318,189	2,055	(3,434)	4,811	4,837
Ending net assets	336,576	2,704	(5,023)	4,869	4,450

	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 217,097	\$ 50,260	\$ 17,300	\$ 6,679	\$ 4,903,694
Capital assets - nondepreciable	28,349	29,618	1,556		666,791
Capital assets - depreciable (net)	344,024	52,829	45,506	3,459	1,115,513
Due from primary government					3,720
Long term debt	216,670	19,834	10,602	2,047	4,116,887
Other liabilities	50,669	16,622	6,609	4,978	534,118
Due to primary government		20,000	301		21,312
Net assets:					
Invested in capital assets, net of related debt	194,220	47,807	42,372	3,128	899,576
Restricted					
Debt service					581,432
Other	32,220	10,479	3,583	53	153,429
Other nonexpendable	70,475	14,874			85,349
Unrestricted	25,216	3,091	895	(68)	297,615
Operating expenses	365,151	111,824	94,306	53,292	1,098,802
Depreciation, depletion, and amortization	18,725	4,272	2,705	274	81,005
Program revenue					
Charges for services	290,803	67,632	49,372	9,992	838,815
Operating grants and contributions		3,786	218		34,391
Capital grants and contributions	24,158	9,637	1,804		61,239
Net program (expense) revenue	(68,915)	(35,041)	(45,617)	(43,574)	(245,362)
Interest and investment earnings	4,969	3,567	678	25	72,932
Miscellaneous	24,441	1		60	30,570
Payments from primary government	83,359	45,024	47,113	43,901	282,831
Change in net assets	43,854	13,551	2,174	412	142,115
Beginning net assets as restated	278,277	62,700	44,676	2,701	1,875,286
Ending net assets	322,131	76,251	46,850	3,113	2,017,401

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Significant transactions between primary government and component units

	Revenue		Description
	(Expenses)		
Governmental activities			
General Fund			
R.I. Higher Education Assistance Authority	\$ 6,708		Operating assistance
R.I. Economic Development Corporation	11,584		Operating and capital assistance
University of Rhode Island	85,901		Educational assistance
Rhode Island College	47,338		Educational assistance
Community College of Rhode Island	48,519		Educational assistance
Central Falls School District	43,795		Educational assistance
ISTEA Fund			
R.I. Public Transit Corporation	31,649		Operating assistance
Capital Projects			
University of Rhode Island	30,801		Construction, improvement or purchase of assets
Rhode Island College	20,514		Construction, improvement or purchase of assets
Total Governmental Activities	\$ 326,809		

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds 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	\$ 17,808	\$ 5,146	\$ 22,954	\$ (16,676)	\$ 6,278
Loans to other funds	14,422		14,422	(14,422)	
Total assets	\$ 32,230	\$ 5,146	\$ 37,376	\$ (31,098)	\$ 6,278
Liabilities					
Due to other funds	\$ 14,800	\$ 1,876	\$ 16,676	\$ (16,676)	\$
Loans from other funds	8,422	6,000	14,422	(14,422)	
Total liabilities	\$ 23,222	\$ 7,876	\$ 31,098	\$ (31,098)	\$
Other financing sources (uses):					
Operating transfers in	\$ 828,885	\$	\$ 828,885	\$ (523,979)	\$ 304,906
Operating transfers out	(522,631)	(1,348)	(523,979)	523,979	
Total other financing sources (uses):	\$ 306,254	\$ (1,348)	\$ 304,906	\$	\$ 304,906
Total Business-type Activities			Total	Eliminations	Internal Balances
Due to other funds	\$ 6,278	\$	\$ 6,278	\$	\$ 6,278
	\$ 6,278	\$	\$ 6,278	\$	\$ 6,278
Nonoperating revenues (expenses):					
Operating transfers in	\$ 21,444	\$	\$ 21,444	\$ (21,444)	\$
Operating transfers out	(328,350)		(328,350)	21,444	(304,906)
Total nonoperating revenues (expenses):	\$ (292,350)	\$	\$ (292,350)	\$	\$ (304,906)

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B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, 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.

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 administering 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, 2007 were as follows:

Guaranteed loans outstanding at June 30, 2007	\$392,980,000
Loans guaranteed during the year	202,581,000
Guarantee claims paid during the year	15,849,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for advances totaling \$35,935,000 made during the years ended June 30, 1998 through 2007 been made.

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. Of this amount, \$20 million will be repaid to the State.

As of June 30, 2007, the State had issued all of the \$30 million authorized debt. The College has recognized \$20 million as a liability to the State for its obligation to pay two-thirds of the debt service as a result of these issuances. Additionally, the College recorded an appropriation of \$8,104,033 as of June 30, 2007 to record the \$10 million of contributed capital by the State.

C. Restatements, Reclassifications and Other Changes in Presentation

Restatements	Governmental Activities	Discretely Presented Component Units	Internal Service Funds
June 30, 2006 net assets as previously reported	\$ 1,030,735	\$ 1,877,527	\$ 31,767
Correction of errors	1,250	(587)	1,025
Reclassifications		(1,654)	1,247
June 30, 2006 net assets as restated	<u>\$ 1,031,985</u>	<u>\$ 1,875,286</u>	<u>\$ 34,039</u>

The beginning net assets of the Governmental Activities within the government-wide financial statements were increased by \$1,250,000 for the correction of errors relating to depreciation of capital assets recognized in prior years. Certain assets were included in infrastructure assets during fiscal 2006 rather than construction in progress. During fiscal 2007 those assets were reclassified to construction in progress and the related depreciation expense recognized during fiscal 2006 (\$225,000) was reversed. Beginning net assets were increased by \$1,025,000 to reflect the correction of errors relating to accumulated depreciation on certain capital assets utilized within the internal service funds.

Beginning net assets of the internal service funds were increased by a net amount of \$2,272,000 relating to the adjustment of accumulated depreciation on certain capital assets utilized within the internal service funds and the transfer of functions previously recorded in an internal service fund to the General fund.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of \$587,000 to correct errors in prior periods. Additionally, the operations of the Rhode Island Underground Storage Tank Responsibility Fund, a discretely presented component unit in fiscal 2006, are presented within the State's General Fund in fiscal 2007. Accordingly, beginning net assets of the aggregate discretely presented component units were decreased by \$1,654,000.

During fiscal 2007, one internal service fund (Information Processing) was eliminated; two others were combined into one fund (Pastore Communications and Centrex); and one other internal service fund (Retiree Health) was split into two internal service funds – Health Insurance Active and Health Insurance Retirees. Other activity included in the Retiree Health internal service fund in fiscal 2006 is now reflected in two agency funds.

The State changed its amortization method for premiums, discounts and deferred amounts on refunding related to the issuance of debt from straight-line to the bonds outstanding method. The change resulted in a net decrease of \$2,500,000 in current year interest expense resulting from the adjustment of amortization recognized in prior years.

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The State changed its classification of expenditures/expenses by function by eliminating the intergovernmental category and classifying those expenditures/expenses within the remaining functional categories. In addition, the State changed its classification of capital outlay expenditures within the Governmental Funds.

Note 19. Subsequent Events

Primary Government

In July 2007, the State of Rhode Island entered into a payment agreement with the R.I. Economic Development Corporation relating to \$14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer.

On August 29, 2007 the State of Rhode Island issued \$131,755,000 in General Obligation Bonds with interest rates ranging from 4.50% to 5.50% with maturity dates of August 2008 through August 2027. This issuance included a \$123,255,000 Consolidated Capital Development Loan of 2007, Series A and a \$8,500,000 Capital Development Loan of 2007, Series B.

On December 13, 2007 the State of Rhode Island issued \$220,000,000 in General Obligation Tax Anticipation Notes that mature on June 30, 2008.

On November 30, 2007 the State of Rhode Island issued \$59,185,000 in Lease Participation Certificates with interest rates ranging from 3.30% to 5.00% to refund \$60,435,000 of existing Certificates of Participation.

The State plans to issue, in April 2008, approximately \$46.5 Million of General Obligation Bonds to advance refund approximately \$47.3 Million of existing general obligation bonds.

Component Units

On August 17, 2007 the R.I. Resource Recovery Corporation received proceeds of \$2,666,740 on the sale of an 18 acre parcel lot from its industrial park development project.

Subsequent to June 30, 2007 the R.I. Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$2,470,000 and the Multifamily Bond Program in the amount of \$2,000,000.

On September 13, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$70,000,000 of Homeownership Opportunity Bonds, Series 57.

On November 7, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$72,620,000 of Homeownership Opportunity Bonds, Series 58.

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On December 14, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$45,560,000 of Housing Bonds, Series B-1.

On March 20, 2008 the R.I. Housing and Mortgage Finance Corporation issued \$72,610,000 of Homeownership Opportunity Bonds, Series 59.

On April 1, 2008 the R.I. Housing and Mortgage Finance Corporation issued \$23,040,000 of Homeownership Opportunity Bonds, Series 60.

On November 16, 2006, the R.I. Clean Water Finance Agency issued \$39,740,000 of Water Pollution Control Revolving Fund Revenue Bonds, Series 2007A.

On December 12, 2007, the Narragansett Bay Commission executed a \$25,000,000 borrowing from Rhode Island Clean Water Finance Agency.

On September 17, 2007 the R.I. Board of Governors for Higher Education voted to discontinue the Retirement Incentive Programs at the University of Rhode Island, Rhode Island College and the Community College of Rhode Island effective June 30, 2008. The program provides for an incentive payment for all eligible employees. The number of employees who will elect to retire and receive the retirement incentive is unknown at this time.

Effective September 27, 2007, the agreement between the R.I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) to sell and assign certain assets and rights was terminated. RISLA has agreed to reimburse Nelnet \$4,100,000 which represents 51.3% of the \$8,000,000 paid to RISLA by Nelnet in 2004.

In November 2007, the R.I. Board of Governors for Higher Education and the Community College of RI were ordered by an arbitrator to pay a contractor approximately \$3,300,000 in damages relating to the construction of a new facility. This decision has been appealed to the Superior Court.

Subsequent to June 30, 2007 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

In March 2008, UTGR, Inc., the owners of Twin River, a licensed video lottery facility of the Rhode Island Lottery, defaulted on loan payments to its lenders, and is in the process of working out agreements with its lenders and other creditors. The Rhode Island Lottery and the Department of Business Regulation are monitoring the situation on a daily basis. The Lottery has collected all revenues due to the State each day without interruption, and the facility is current. UTGR, Inc. has advised the Lottery that a 150-day extension (August 2008) has been reached with its lenders.

In the event of default, the lenders could force bankruptcy proceedings; a master could be appointed and require current personnel to oversee the operation until all accounts with the

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lenders are settled. In the event the facility is to be sold, the Rhode Island Lottery with the Department of Business Regulation would perform necessary procedures to approve the buyer and meet licensing requirements.

A preliminary forensic audit of the R.I. Resource Recovery Corporation highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. The results of the preliminary forensic audit have been referred to law enforcement to determine if there is evidence of criminal activity that warrants further investigation. Management has not determined the impact of the preliminary forensic audit or other pending investigations on the corporation, including the carrying value of certain of its assets held for development.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	\$ 1,051,789	\$ 1,056,400	\$ 1,065,367	\$ 8,967
General Business Taxes:				
Business Corporations	122,291	167,000	148,149	(18,851)
Public Utilities Gross Earnings	99,300	104,000	102,109	(1,891)
Financial Institutions	(6,200)	3,600	4,423	823
Insurance Companies	52,700	52,400	56,624	4,224
Bank Deposits	1,600	1,600	1,674	74
Health Care Provider Assessment	49,864	47,800	47,970	170
Sales and Use Taxes:				
Sales and Use	920,775	885,000	873,204	(11,796)
Motor Vehicle	50,000	45,300	46,879	1,579
Motor Fuel	1,106	1,100	1,312	212
Cigarettes	123,791	119,400	120,481	1,081
Alcohol	11,000	10,900	10,706	(194)
Other Taxes:				
Inheritance and Gift	32,074	29,600	34,684	5,084
Racing and Athletics	3,300	2,900	2,921	21
Realty Transfer Tax	15,000	13,800	12,737	(1,063)
Total Taxes	<u>2,528,390</u>	<u>2,540,800</u>	<u>2,529,240</u>	<u>(11,560)</u>
Departmental Revenue	<u>296,432</u>	<u>288,460</u>	<u>277,790</u>	<u>(10,670)</u>
Total Taxes and Departmental Revenue	<u>2,824,822</u>	<u>2,829,260</u>	<u>2,807,030</u>	<u>(22,230)</u>
Other Sources				
Gas Tax Transfer	4,927	4,676	4,705	29
Other Miscellaneous	60,779	67,407	67,471	64
Lottery	362,500	322,300	320,990	(1,310)
Unclaimed Property	10,800	11,000	11,457	457
Total Other Sources	<u>439,006</u>	<u>405,383</u>	<u>404,623</u>	<u>(760)</u>
Total General Revenues	<u>3,263,828</u>	<u>3,234,643</u>	<u>3,211,653</u>	<u>(22,990)</u>
Federal Revenues	1,697,574	1,730,406	1,629,715	(100,691)
Restricted Revenues	124,302	135,119	109,184	(25,935)
Other Revenues	114,192	115,536	105,877	(9,659)
Total Revenues	<u>5,199,896</u>	<u>5,215,704</u>	<u>5,056,429</u>	<u>(159,275)</u>
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,545	1,404	1,338	66
Federal Fund Total	346	278	234	44
** Restricted Receipts Total	70	125	120	5
Total-Central Management	<u>1,962</u>	<u>1,807</u>	<u>1,693</u>	<u>114</u>
Legal Services				
Legal Support/DOT	109	115	31	84
General Revenue Total	2,562	2,648	2,498	150
Total-Legal Services	<u>2,671</u>	<u>2,762</u>	<u>2,529</u>	<u>233</u>

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	Original Budget	Final Budget	Actual	Variance
Accounts & Control				
General Revenue Total	3,429	3,391	3,357	34
Federal Fund Total				
Total-Accounts & Control	3,429	3,391	3,357	34
Budgeting				
General Revenue Total	2,456	2,250	2,192	58
Municipal Affairs				
Federal Fund Total			(355)	355
Purchasing				
General Revenue Total	2,417	2,319	2,213	106
Auditing				
General Revenue Total	2,058	1,735	1,707	28
Human Resources				
Other Fund Total	1,120	763	463	300
General Revenue Total	12,314	9,935	9,717	218
Federal Fund Total	815	1,961	1,697	264
Restricted Receipts Total	647	548	532	16
Total-Human Resources	14,897	13,207	12,409	798
Personnel Appeal Board				
General Revenue Total	103	111	94	17
Child Support				
Federal Fund Total			(221)	221
Facilities Management				
General Revenue Total	41,144	39,165	39,655	(490)
Federal Fund Total	21,551	30,110	29,205	905
Restricted Receipts Total	1,374	1,285	1,230	55
Other Fund Total	1,542	510	471	39
Total-Facilities Management	65,610	71,071	70,561	510
Capital Projects & Property Management				
General Revenue Total	3,316	3,092	3,073	19
Information Technology				
General Revenue Total	17,585	20,889	21,042	(153)
Federal Fund Total	7,076	7,489	6,190	1,299
Restricted Receipts Total	1,441	1,461	1,869	(408)
Other Fund Total	1,242	1,272	2,453	(1,181)
Total-Information Technology	27,344	31,111	31,554	(443)

	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,078	1,096	1,096	
Federal Fund Total	1,356	1,082	1,008	74
Restricted Receipts Total	2	5	1	4
Total-Library and Information Services	2,435	2,182	2,105	77
Statewide Planning				
General Revenue Total	5,306	4,611	4,597	14
Federal Fund Total	8,107	10,203	7,448	2,755
Other Fund Total	1,474	1,829	1,425	404
Total-Statewide Planning	14,887	16,642	13,469	3,173
Security Services				
General Revenue Total	19,855	19,686	19,535	151
General				
RICAP-State House Terrace/South Stairs		24		24
RICAP-Pastore Center Sewer Improvements		43	43	
RICAP-Chapin Health Laboratory	100			
RICAP-Cranston Street Armory		781	479	302
RICAP-Cannon Building	150	179		179
Zambarano Building		151		151
RICAP-Veterans' Auditorium		794	770	24
RICAP-Old State House	100	39	9	30
RICAP-State Office Building		417	230	187
RICAP-Old Colony House		99	51	48
RICAP-Washington County Government Center		239	151	88
RICAP-State House Renovations-Phase II			(7)	7
RICAP-William Powers Building	500	642	597	45
RICAP-State House Renovations-Phase III	830	949	863	86
RICAP-Environmental Compliance	250	242	179	63
RICAP-Fox Point Hurricane Barrier	50			
Bio-Tech Training Lab Planning		86	85	1
RICAP-Varley Building	100			
RICAP-Fire Code Compliance State Building	500	237	215	22
Eisenhower House		17	16	1
RICAP-Elderly Affairs One Stop	200			
McCoy Stadium Repair	1,280	1,280	1,043	237
RICAP-Lead Mitigation-Group Homes	200			
Miscellaneous Grants and Payments	627	627	617	10
Torts-Court Awards	400	518	471	47
EDC-RI Airport Corporation Impact Aid	1,754	1,754	2,754	(1,000)
State Employees/Teachers Retiree Health	9,475			
EDC-Urban Revitalization Fund Capital Reserve	50	50		50
Governor's Contingency Fund	1,050	1,324	936	388
Economic Development Corporation Grant	7,455	7,235	6,230	1,005
Slater Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	300	
Motor Vehicle Excise Tax Payment	136,005	136,229	136,230	(1)
Property Valuation	1,500	2,000	2,186	(186)
General Revenue Sharing Program	65,160	65,112	65,112	

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	Original Budget	Final Budget	Actual	Variance
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,921	10,154	9,930	224
Resource Sharing and State Library Aid	8,713	8,713	8,712	1
Library Construction Aid	2,705	2,849	2,752	97
EPScore-EDC	1,500	1,500	1,500	
Police/Fire Incentive Pay		675	671	4
Domestic Partners IRS Penalty		20	19	1
Federal Fund Total	35	35	203	(168)
Restricted Receipts Total	1,283	1,496	1,266	230
Total-General	283,960	277,580	275,381	2,199
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	1,528	1,528	1,528	
RICAP-DEM-Clean Water Finance Agency	3,254	3,351	3,351	
RICAP-DEM-Wastewater Treatment	4,203	4,256	4,256	
RICAP-DEM-Debt Service-Recreation	8,341	6,027	6,027	
RIPTA Debt Service	703	684	684	
RICAP-MHRH Comm Services	5,375	5,375	5,375	
RICAP-MHRH Comm. Mental Health	1,827	1,863	1,863	
Transportation Debt Service	36,696	35,907	35,907	
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	382	382	354	28
Investment Receipts-Bond Funds			32	(32)
RICAP-DEM Hazardous Waste	2,340	2,340	2,340	
RICAP-Water Resources Board	2,220	2,247	2,247	
Airport Debt Service		2,500	2,500	
RICAP-Third Rail/Quonset Point Debt Service	2,464	2,065	2,065	
Debt Service Payments	89,129	86,601	86,817	(216)
Federal Fund Total	1,178	1,178	1,155	23
Restricted Receipts Total	1,028	2,078	1,766	312
Total-Debt Service Payments	160,715	158,428	158,329	99
Retirement Alternative				
Pay Plan Reserve General Revenue	(3,710)			
Other Fund Total	(1,513)			
Federal Fund Total	(1,298)			
Restricted Receipts Total	(265)			
State Employee Turnover 5.2%	(36,491)			
Total-Retirement Alternative	(6,786)			
General Revenue Total-Department of Administration	442,478	468,758	468,121	637
Federal Fund Total-Department of Administration	39,166	52,334	46,563	5,771
Restricted Receipts Total-Department of Administration	5,580	6,998	6,785	213
Other Fund Total-Department of Administration	77,613	79,282	78,160	1,122
Total-Department of Administration	564,837	607,372	599,627	7,745
Department of Business Regulations				
Central Management				
General Revenue Total	1,456	1,225	1,202	23

	Original Budget	Final Budget	Actual	Variance
Banking Regulation				
General Revenue Total	2,822	2,775	2,840	(65)
Commercial Licensing and Regulation				
General Revenue Total	1,815	1,553	1,541	12
Restricted Receipts Total	100	100	(25)	125
Total-Commercial Licensing and Regulation	1,915	1,653	1,516	137
Insurance Regulation				
Federal Funds		43	43	
General Revenue Total	4,685	5,033	4,759	274
Restricted Receipts Total	704	828	741	87
Total-Insurance Regulation	5,389	5,905	5,543	362
Board of Accountancy				
General Revenue Total	156	146	143	3
General Revenue Total-DBR	10,935	10,733	10,485	248
Federal Fund Total-DBR		43	43	
Restricted Receipts Total-DBR	804	928	716	212
Total-Department of Business Regulation	11,739	11,704	11,245	459
Department of Labor and Training				
Central Management				
General Revenue Total	143	146	139	7
Director of Workers' Compensation	385	528	478	50
Total-Central Management	528	674	617	57
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations	55	145	103	42
Reed Act-Rapid Job Development	931	950	798	152
Reed Act-Workforce Development	6,203	4,531	4,088	443
General Revenue Total	259	36	36	36
Federal Fund Total	15,789	17,917	13,471	4,446
Restricted Receipts Total	10,379	6,631	3,656	2,975
Total-Workforce Development Services	33,616	30,209	22,116	8,093
Workforce Regulation and Safety				
General Revenue Total	2,861	3,382	3,383	(1)
Income Support				
General Revenue Total	3,138	3,259	3,270	(11)
Federal Fund Total	12,821	16,506	16,460	46
Restricted Receipts Total	1,616	1,761	1,596	165
Total-Income Support	17,575	21,526	21,327	199
Injured Workers Services				
Restricted Receipts Total	10,509	11,163	9,822	1,341

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Labor Relations Board				
General Revenue Total	442	354	354	
General Revenue Total-DLT	6,842	7,177	7,147	30
Federal Fund Total-DLT	28,610	34,423	29,931	4,492
Restricted Receipts Total-DLT	22,889	20,083	15,552	4,531
Other Fund Total-DLT	7,190	5,626	4,989	637
Total-Department of Labor and Training	65,531	67,309	57,619	9,690
General Assembly				
General Revenue Total	32,220	33,473	30,942	2,531
Restricted Receipts Total	1,452	1,409	1,409	
Total-General Assembly	33,672	34,882	32,351	2,531
Office of the Lietenant Governor				
General Revenue Total	963	881	875	6
Department of State Administration				
General Revenue Total	1,741	1,661	1,691	(30)
Corporations				
General Revenue Total	1,802	1,839	1,807	32
State Archives				
General Revenue Total	105	207	194	13
Federal Fund Total	85	85	87	(2)
Restricted Receipts Total	486	217	270	(53)
Total-State Archives	676	509	552	(43)
Elections				
General Revenue Total	1,278	1,570	1,559	11
Federal Fund Total	1,932	858	889	(31)
Total-Elections	3,210	2,428	2,448	(20)
State Library				
General Revenue Total	700	698	698	
Office of Public Information				
General Revenue Total	314	204	201	3
General Revenue Total-Secretary of State	5,941	6,180	6,150	30
Federal Fund Total-Secretary of State	2,017	943	976	(33)
Restricted Fund Total-Secretary of State	486	217	270	(53)
Total-Department of State	8,444	7,339	7,397	(58)

	Original Budget	Final Budget	Actual	Variance
Treasury Department				
Treasury				
General Revenue Total	2,686	2,425	2,408	17
Federal Fund Total	291	305	264	41
Restricted Receipts Total	10	10	10	
Total-Treasury	2,987	2,741	2,672	69
State Retirement System				
Administrative Expenses-State Retirement System	5,661	6,391	4,959	1,432
Retirement-Treasury Investment Operations	772	933	867	66
Total-State Retirement System	6,433	7,324	5,826	1,498
Unclaimed Property				
Restricted Receipts Total	16,658	19,473	14,481	4,992
RI Refunding Bond Authority				
General Revenue Total	56	41	32	9
Crime Victim Compensation Program				
General Revenue Total	212	197	197	
Federal Fund Total	731	1,654	212	1,442
Restricted Receipts Total	1,716	1,627	1,154	473
Total-Crime Victim Compensation Program	2,659	3,479	1,563	1,916
General Revenue Total-Treasury	2,953	2,663	2,637	26
Federal Fund Total-Treasury	1,022	1,960	476	1,484
Restricted Receipts Total-Treasury	24,817	28,434	21,461	6,973
Total-Treasury Department	28,792	33,057	24,573	8,484
Board for Professional Design				
General Revenue Total	390	374	374	
Board of Elections				
General Revenue Total	2,516	3,685	3,626	59
Federal Fund Total	819	822	766	56
Total-Board of Elections	3,335	4,507	4,392	115
Rhode Island Ethics Commission				
General Revenue Total	1,297	1,228	1,222	6
Office of Governor				
General Revenue Total	4,952	4,682	4,672	10
Restricted Receipts Total			(4)	4
Other Fund Total	92	89	69	20
Total-Office of Governor	5,044	4,770	4,738	32

Exhibit A-63

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Public Utilities Commission				
General Revenue Total	744	509	499	10
Federal Fund Total	89	100	93	7
Restricted Receipts Total	6,080	6,209	4,882	1,327
Total-Public Utilities Commission	6,913	6,817	5,474	1,343
Rhode Island Commission on Women				
General Revenue Total	100	99	99	
Department of Revenue				
Director of Revenue				
General Revenue Total		251	203	48
Office of Revenue Analysis				
General Revenue Total	877		177	(177)
Property Valuation				
General Revenue Total	670	652	641	11
Taxation				
General Revenue Total	18,374	17,189	16,646	543
Federal Fund Total	1,188	1,157	1,002	155
Restricted Receipts Total	813	776	690	86
Other Fund Total	918	937	771	166
Total Taxation	21,294	20,059	19,109	950
Registry of Motor Vehicles				
General Revenue Total	17,537	17,023	16,860	163
Federal Fund Total	396	975	146	829
Restricted Receipts Total	16	16	15	1
Total Registry of Motor Vehicles	17,949	18,015	17,021	994
General Revenue Total-Department of Revenue	37,458	35,115	34,527	588
Federal Fund Total-Department of Revenue	1,584	2,133	1,148	985
Restricted Receipts Total-Department of Revenue	829	792	705	87
Other Fund Total-Department of Revenue	918	937	771	166
Total-Department of Revenue	40,789	38,976	37,151	1,825
Office of Health and Human Services				
General Revenue Total	313	297	250	47
Federal Fund Total	245	2,591	94	2,497
Restricted Revenues Total	212	416	297	119
Total-Office of Health and Human Services	770	3,304	641	2,663

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	6,861	7,126	6,906	220
Federal Fund Total	3,477	3,135	3,338	(203)
Total-Central Management	10,338	10,260	10,244	16
Children's Behavioral Health Services				
RICAP-Groden Center-Mt. Hope		63	63	
General Revenue Total	36,982	39,865	38,167	1,698
Federal Fund Total	37,112	38,884	37,511	1,373
Total-Children's Behavioral Health Services	74,094	78,813	75,741	3,072
Juvenile Correctional Services				
RICAP-RI Training School-Girls Facilities	800	100	100	
RICAP-Community Facilities-Training	500			
General Revenue Total	32,579	31,626	31,969	(343)
Federal Fund Total	3,379	3,060	2,663	397
Restricted Receipts Total	6	504	202	302
Total-Juvenile Correctional Services	37,264	35,289	34,934	355
Child Welfare				
General Revenue Total	96,569	107,768	112,150	(4,382)
Federal Fund Total	72,496	79,357	76,913	2,444
Restricted Receipts Total	1,655	1,715	1,565	150
RICAP-Fire Codes Upgrade	500	100	25	75
Total-Child Welfare	171,220	188,940	190,652	(1,712)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
General Revenue Total-DCYF	173,191	186,585	189,391	(2,806)
Federal Fund Total-DCYF	116,465	124,435	120,425	4,010
Restricted Receipts Total-DCYF	1,661	2,219	1,767	452
Other Fund Total-DCYF	1,800	263	188	75
Total-Department of Children, Youth, and Families	293,117	313,502	311,771	1,731
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,800	4,685	4,344	341
General Revenue Total	16,683	17,418	17,672	(254)
Safety and Care of the Elderly	1	1	1	
RIPAE	3,412	1,465	1,137	328
Federal Fund Total	12,624	14,777	12,058	2,719
Restricted Receipts Total	1,250	1,200	741	459
General Revenue Total-Department of Elderly Affairs	20,096	18,884	18,810	74
Federal Fund Total-Department of Elderly Affairs	12,624	14,777	12,058	2,719
Restricted Receipts Total-Department of Elderly Affairs	1,250	1,200	741	459
Other Fund Total-Department of Elderly Affairs	4,800	4,685	4,344	341
Total-Department of Elderly Affairs	38,769	39,546	35,952	3,594

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Health				
Central Management				
General Revenue Total	4,815	4,968	4,384	584
Federal Fund Total	4,850	5,268	3,076	2,192
Trauma Registry		8		8
Restricted Receipts Total	1,851	3,553	3,329	224
Total-Central Management	11,515	13,798	10,789	3,009
State Medical Examiner				
General Revenue Total	1,965	2,158	1,984	174
Federal Fund Total	141	150	144	6
Total-State Medical Examiner	2,105	2,309	2,128	181
Family Health				
General Revenue Total	3,039	2,934	2,952	(18)
Federal Fund Total	28,930	30,573	30,036	537
Restricted Receipts Total	6,876	12,800	6,753	6,047
Total-Family Health	38,845	46,306	39,740	6,566
Health Services Regulation				
General Revenue Total	5,085	5,974	5,632	342
Federal Fund Total	5,350	5,882	4,789	1,093
Restricted Receipts Total	400	404	365	39
Total-Health Services Regulation	10,836	12,260	10,787	1,473
Environmental Health				
General Revenue Total	4,617	4,301	4,125	176
Federal Fund Total	4,815	6,029	4,304	1,725
Restricted Receipts Total	1,554	2,469	1,758	711
Total-Environmental Health	10,986	12,799	10,186	2,613
Health Laboratories				
General Revenue Total	6,366	6,575	6,546	29
Federal Fund Total	2,185	2,572	2,004	568
Total-Health Laboratories	8,551	9,147	8,550	597
Disease Prevention and Control				
General Revenue Total	7,367	6,201	5,818	383
Smoking Cessation	50	50	50	
Federal Fund Total	19,893	18,076	16,560	1,516
Walkable Communities Initiative	30	27	30	(3)
Total-Disease Prevention and Control	27,340	24,354	22,457	1,897
General Revenue Total-Health	33,303	33,161	31,491	1,670
Federal Fund Total-Health	66,163	68,550	60,912	7,638
Restricted Receipts Total-Health	10,681	19,226	12,205	7,021
Other Fund Total-Health	30	35	29	6
Total-Department of Health	110,177	120,972	104,637	16,335

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Human Services				
Central Management				
General Revenue Total	8,778	11,342	11,074	268
Federal Fund Total	6,666	6,595	4,803	1,792
Restricted Receipts Total	2,240	1,699	1,688	11
Total-Central Management	17,684	19,636	17,566	2,070
Child Support Enforcement				
General Revenue Total	3,649	3,656	3,411	245
Federal Fund Total	7,400	7,186	6,960	226
Restricted Receipts Total		50	49	1
Total-Child Support Enforcement	11,049	10,891	10,420	471
Individual and Family Support				
General Revenue Total	25,166	23,140	23,254	(114)
Federal Fund Total	54,778	53,060	49,740	3,320
Restricted Receipts Total	92	134	136	(2)
Total-Individual and Family Support	80,036	76,334	73,130	3,204
Veterans' Affairs				
General Revenue Total	17,300	16,844	17,206	(362)
Federal Fund Total	7,588	6,616	6,662	(46)
Restricted Receipts Total	1,219	2,804	866	1,938
Total-Veterans' Affairs	26,108	26,264	24,735	1,529
Health Care Quality, Financing and Purchases				
General Revenue Total	21,179	21,439	19,755	1,684
Federal Fund Total	45,341	44,955	37,333	7,622
Restricted Receipts Total	567	287	181	106
Total-Health Care Quality, Financing and Purchases	67,086	66,680	57,269	9,411
Medical Benefits				
General Revenue Total				
Managed Care	202,050	205,647	196,813	8,834
Hospital	84,254	70,211	76,939	(6,728)
Other	113,479	50,255	75,948	(25,693)
Pharmacy	23,485	61,178	59,788	1,390
Nursing Facilities	146,058	164,813	140,386	24,427
General Revenue Total	569,326	552,104	549,874	2,230
Federal Fund Total				
Managed Care	246,229	239,353	239,468	(115)
Hospital	82,339	70,227	64,979	5,248
Nursing Facilities	163,775	185,164	156,281	28,883
Other	80,234	56,498	86,025	(29,527)
Pharmacy	25,887	24,433	23,218	1,215
Special Education	20,733	20,733	19,122	1,611
Federal Fund Total	619,197	596,408	589,093	7,315
Restricted Receipts Total	4,490	3,900	20	3,880
Total-Medical Benefits	1,193,013	1,152,412	1,138,987	13,425

Exhibit A-65

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Supplemental Security Income Program				
General Revenue Total	28,201	27,659	27,574	85
Family Independence Program				
TANF/Families Independence Program	7,724	16,125	16,124	1
Child Care	39,871	28,905	31,798	(2,893)
Federal Fund Total	84,438	86,613	86,064	549
Total-Family Independence Program	132,033	131,644	133,986	(2,342)
State Funded Programs				
General Public Assistance	3,860	3,898	3,681	217
Federal Fund Total	83,691	83,333	86,907	(3,574)
Total-State Funded Programs	87,551	87,231	90,588	(3,357)
General Revenue Total-Human Services	725,054	705,112	703,753	1,359
Federal Fund Total-Human Services	909,099	884,766	867,561	17,205
Restricted Receipts Total-Human Services	8,609	8,873	2,941	5,932
Other Fund Total-Human Services				
Total-Department of Human Services	1,642,762	1,598,751	1,574,256	24,495
Department of Mental Health, Retardation, and Hospital Central Management				
Federal Fund Total		131		131
General Revenue Total	2,251	2,148	2,169	(21)
Total-Central Management	2,251	2,278	2,169	109
Hospital & Community System Support				
RICAP-Utilities Upgrade	500	623	119	504
RICAP-Medical Center Rehabilitation	400	115	94	21
RICAP-Utilities Systems Water tanks and Pipes	250	522	452	70
RICAP-DD Private Community Firecode	188	71	34	37
RICAP-Central Power Plant Rehabilitation	400	117	81	36
RICAP-Community Fire Code Compliance	500	544	415	129
Pastore Fire Code Compliance	250	133	128	5
General Revenue Total	4,575	3,562	3,553	9
Federal Fund Total	229	87	37	50
Total-Hospital & Community System Support	7,292	5,775	4,913	862
Service for the Developmentally Disabled				
RICAP-Dev. Disability Group Homes	1,000	959	893	66
RICAP-Regional Center Repair/Rehabilitation	200	160	141	19
General Revenue Total	119,315	118,007	118,007	(40)
Federal Fund Total	135,138	137,008	134,605	2,403
Total-Service for the Developmentally Disabled	255,654	256,134	253,686	2,448
Integrated Mental Health Services				
General Revenue Total	43,580	43,453	44,544	(1,091)
Federal Fund Total	37,670	37,527	36,127	1,400
Total-Integrated Mental Health Services	81,250	80,980	80,671	309

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Building and Utilities	200	79	26	53
General Revenue Total	52,577	58,311	54,536	3,775
Federal Fund Total	56,766	61,872	55,482	6,390
Hospital Consolidation		150		150
Total-Hospital & Community Rehabilitation Svcs	109,543	120,412	110,044	10,368
Substance Abuse				
RICAP-Asset Protection	100	199	165	34
General Revenue Total	16,158	15,474	15,467	7
Federal Fund Total	14,849	14,819	14,195	624
Restricted Receipts Total	90	190	183	7
Eastman House		200		200
Total-Substance Abuse	31,197	30,882	30,011	871
General Revenue Total-MHRH	238,456	240,956	238,316	2,640
Federal Fund Total-MHRH	244,653	251,443	240,446	10,997
Restricted Receipts Total-MHRH	90	190	183	7
Other Fund Total-MHRH	3,988	3,873	2,548	1,325
Total-Department of Mental Health, Retardation, and Hospital	487,186	496,462	481,494	14,968
Office of Child Advocate				
General Revenue Total	558	521	514	7
Federal Fund Total	40	38	38	
General Revenue Total-Office of Child Advocate	558	521	514	7
Federal Fund Total-Office of Child Advocate	40	38	38	
Restricted Receipts Total-Office of Child Advocate				
Total-Office of Child Advocate	598	559	551	8
Rhode Island Commission of the Deaf and Hard of Hearing				
Commission on Deaf and Hard of Hearing				
General Revenue Total	355	310	302	8
Federal Fund Total	15	18	5	13
Total-Rhode Island Commission of the Deaf and Hard of Hearing	370	327	306	21
State Council on Developmental Disabilities				
Federal Fund Total	461	461	422	39
Governor's Commission on Disabilities				
General Revenue Total	602	553	519	34
Federal Fund Total	196	176	162	14
Restricted Receipts Total	25	26	2	24
RICAP-Handicapped Accessibility Facility Renovation	200	200	163	37
Total-Governor's Commission on Disabilities	1,023	955	846	109

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Rhode Island Commission for Human Rights				
General Revenue Total	1,075	990	988	2
Federal Fund Total	323	324	259	65
General Revenue Total-RI Comm for Human Rights	1,075	990	988	2
Federal Fund Total-RI Comm for Human Rights	323	324	259	65
Total-Rhode Island Commission for Human Rights	1,399	1,313	1,247	66
Office of Mental Health Advocate				
General Revenue Total	409	385	385	
Department of Elementary and Secondary Education				
Education Aid				
State Support Local School Operations	675,530	676,885	676,878	7
Federal Fund Total	2,222	1,119	727	392
Restricted Receipts Total	1,735	1,454	980	474
Total-Education Aid	679,487	679,458	678,585	873
School Construction				
General Revenue Total	49,672	46,815	46,815	
Teachers' Retirement				
General Revenue Total	69,200	67,260	70,287	(3,027)
RI School for the Deaf				
General Revenue Total	6,476	6,441	6,423	18
Federal Fund Total	376	402	328	74
Total-RI School for the Deaf	6,852	6,844	6,751	93
Central Falls School District				
General Revenue Total	43,235	43,795	43,795	
Davies Career and Technical School				
RICAP-Davies Elevators/HVAC	52	124	124	
General Revenue Total	13,753	13,621	13,599	22
Federal Fund Total	1,200	1,335	1,160	175
Restricted Receipts Total		2	2	
Total-Davies Career and Technical School	15,005	15,082	14,885	197
Metropolitan Career and Technical School				
General Revenue Total	10,407	10,407	10,407	

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Administration of the Comprehensive Education Strategy				
RICAP-Chariho Wells		46	46	
General Revenue Total	21,103	20,287	20,244	43
Federal Fund Total	178,926	178,389	172,099	6,290
Restricted Receipts Total	2,793	3,779	3,451	328
Total-Administration of the Comprehensive Education Strategy	202,822	202,501	195,840	6,661
General Revenue Total-Dept of Elem & Sec Education	889,376	885,511	888,448	(2,937)
Federal Fund Total-Dept of Elem & Sec Education	182,724	181,246	174,314	6,932
Restricted Receipts Total-Dept of Elem & Sec Education	4,527	5,235	4,432	803
Other Fund Total-Dept of Elem & Sec Education	52	170	170	
Total-Department of Elementary & Secondary Education	1,076,679	1,072,162	1,067,364	4,798
Board of Governors for Higher Education				
Board of Governors/Office				
General Revenue Total	7,859	7,734	7,732	2
Federal Fund Total	3,147	3,147	2,871	276
General Revenue Total-URI	88,692	85,901	85,901	
General Revenue Total-RIC	49,239	47,338	47,338	
General Revenue Total-CCRI	50,942	48,519	48,519	
General Revenue Total-BOG Higher Education	196,731	189,492	189,490	2
Federal Fund Total-BOG Higher Education	3,147	3,147	2,871	276
Restricted Receipts Total-BOG Higher Education	486	692	439	253
Total-Board of Governors for Higher Education	200,365	193,330	192,799	531
Rhode Island State Council on the Arts				
Operating Support	1,575	709	657	52
Grants	1,267	2,048	1,455	593
Federal Fund Total	732	695	654	41
Art of Public Facilities Fund	1,008	800	156	644
General Revenue Total-RI State Council on the Arts	2,841	2,757	2,112	645
Federal Fund Total-RI State Council on the Arts	732	695	654	41
Other Funds-RI State Council on the Arts	1,008	800	156	644
Total-Rhode Island Council on the Arts	4,581	4,252	2,922	1,330
Rhode Island Atomic Energy Commission				
URI Sponsored Research	171	174	158	16
General Revenue Total	837	829	828	1
Federal Fund Total	375	341	102	239
Total-Rhode Island Atomic Energy Council	1,383	1,343	1,087	256
RI Higher Education Assistance Authority				
General Revenue Total	6,747	6,708	6,708	
Federal Fund Total	12,852	11,601	8,846	2,755
Tuition Savings Program-Administration	10,058	9,537	8,385	1,152
Total-RI Higher Education Assistance Authority	29,658	27,846	23,939	3,907

Exhibit A-67

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Historical Preservation and Heritage Commission				
General Revenue Total	1,706	1,658	1,616	42
Federal Fund Total	487	605	509	96
Restricted Receipts Total	267	491	85	406
Total-Historical Preservation and Heritage Commission	2,460	2,754	2,210	544
R I Public Telecommunication Authority				
General Revenue Total	1,389	1,318	1,312	6
Corporation for Public Broadcasting	828	739	699	40
RICAP-Digital TV Conversion		384	384	
General Revenue Total-RIPTCA	1,389	1,318	1,312	6
Other Fund Total-RIPTCA	828	1,123	1,083	40
Total-R I Public Telecommunication Authority	2,217	2,440	2,395	45
Department of Attorney General				
Criminal				
General Revenue Total	13,078	12,486	12,468	18
Federal Fund Total	1,055	1,246	1,216	30
Restricted Receipts Total	521	355	165	190
Total-Criminal	14,654	14,087	13,850	237
Civil				
General Revenue Total	4,525	4,219	4,117	102
Restricted Receipts Total	553	585	513	72
Total-Civil	5,077	4,804	4,630	174
Bureau of Criminal Identification				
General Revenue Total	992	949	956	(7)
Federal Fund Total		64	58	6
Total-Bureau of Criminal Identification	992	1,013	1,014	(1)
General				
General Revenue Total	2,250	2,260	2,258	2
RICAP-Building Renovations & Repairs	165	352	162	190
Total-General	2,415	2,611	2,420	191
General Revenue Total-Department of Attorney General	20,844	19,914	19,800	114
Federal Fund Total-Department of Attorney General	1,055	1,310	1,274	36
Restricted Receipts Total-Department of Attorney General	1,073	940	678	262
Other Fund Total-Department of Attorney General	165	352	162	190
Total-Department of Attorney General	23,137	22,515	21,915	600
Department of Corrections				
Central Management				
General Revenue Total	8,557	9,121	8,432	689
Federal Fund Total	260	395	294	101
Total-Central Management	8,817	9,517	8,725	792

	Original Budget	Final Budget	Actual	Variance
Parole Board				
General Revenue Total	1,248	1,231	1,189	42
Federal Fund Total	33	33	38	(5)
Total-Parole Board	1,281	1,264	1,226	38
Institutional Corrections				
RICAP-Bernadette Guay Bldg. Roof	623	679	194	485
RICAP-Reintegration Center State Match	3,247	3,787	2,663	1,124
RICAP-General Renovations-Maximum	250	9	6	3
RICAP-Roof/Masonry Renovations-Women's	700	1,077	1,051	26
RICAP-Women's Bath Renovations	506			
RICAP-Asset Protection	2,154	1,876	1,154	722
RICAP-MIS/Admin Units Relocation	151			
General Revenue Total	139,084	134,363	133,883	480
Federal Fund Total	7,225	9,637	7,922	1,715
Total-Institutional Corrections	153,940	151,428	146,874	4,554
Community Corrections				
General Revenue Total	13,553	12,371	12,293	78
Federal Fund Total	820	1,375	999	376
Total-Community Corrections	14,373	13,746	13,292	454
General Revenue Total-Corrections	162,442	157,086	155,796	1,290
Federal Fund Total-Corrections	8,338	11,440	9,253	2,187
Other Fund Total-Corrections	7,631	7,428	5,068	2,360
Total-Department of Corrections	178,412	175,954	170,117	5,837
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	200	302	202	100
RICAP-Blackstone Valley Courthouse Study	145	146	63	83
RICAP-Judicial HVAC	500	590	590	
RICAP-Asset Protection	100	100	99	1
General Revenue Total	25,834	26,616	26,025	591
Defense of Indigents	2,968	2,968	2,870	98
Federal Fund Total	122	290	92	198
Restricted Receipts Total	1,042	1,206	289	917
Total-Supreme Court	30,911	32,219	30,231	1,988
Superior Court				
Federal Fund Total	465	643	370	273
General Revenue Total	20,659	19,363	19,081	282
Total-Superior Court	21,124	20,006	19,450	556
Family Court				
General Revenue Total	17,271	17,048	17,251	(203)
Federal Fund Total	1,609	1,996	952	1,044
Total-Family Court	18,880	19,044	18,203	841

Exhibit A-68

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
District Court				
General Revenue Total	9,924	10,006	9,873	133
Traffic Tribunal				
General Revenue Total	7,318	7,073	6,845	228
Worker's Compensation Court				
Restricted Receipts Total	7,286	7,140	6,984	156
General Revenue Total-Judicial Department	83,974	83,073	81,946	1,127
Federal Fund Total-Judicial Department	2,196	2,930	1,413	1,517
Restricted Receipts Total-Judicial Department	8,328	8,347	7,273	1,074
Other Fund Total-Judicial Department	945	1,138	955	183
Total-Judicial Department	95,442	95,488	91,586	3,902
Militia of the State				
National Guard				
Quonset Hangar/Armory		3,025	1,945	1,080
RICAP-Schofield Rehabilitation	140	316	145	171
RICAP-Emergency Operations Center				
RICAP-Asset Protection	200	200	144	56
General Revenue Total	2,335	2,053	1,836	217
Federal Fund Total	8,955	8,607	6,755	1,852
Restricted Receipts Total	145	145	63	82
Total-National Guard	12,544	14,346	10,889	3,457
Emergency Management				
General Revenue Total	829	733	698	35
Federal Fund Total	23,695	30,773	20,807	9,966
Restricted Receipts Total	285	219	179	40
Total-Emergency Management	24,810	31,725	21,684	10,041
General Revenue Total-Militia of the State	3,165	2,786	2,534	252
Federal Fund Total-Militia of the State	32,650	39,380	27,562	11,818
Restricted Receipts Total-Militia of the State	430	364	242	122
Other Fund Total-Militia of the State	1,109	3,541	2,235	1,306
Total-Militia of the State	37,354	46,071	32,573	13,498
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,486	4,098	4,116	(18)
Federal Fund Total	71	171	100	71
Restricted Receipts Total	2,312	1,259	1,619	(360)
General Revenue Total-E-911 Uniform Emer Telephone System	4,486	4,098	4,116	(18)
Federal Fund Total-E-911 Uniform Emer Telephone System	71	171	100	71
Restricted Receipts Total-E-911 Uniform Emer Telephone System	2,312	1,259	1,619	(360)
Total- E-911 Uniform Emergency Telephone System	6,869	5,529	5,835	(306)
Fire Safety Code Board of Appeal and Review				

	Original Budget	Final Budget	Actual	Variance
Fire Code Commission				
General Revenue Total	289	285	285	
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	2,838	2,357	2,285	72
Federal Fund Total	191	475	155	320
Other Fund Total		13	13	
General Revenue Total-Div. of Fire Safety	2,838	2,357	2,285	72
Federal Fund Total-Div of Fire Safety	191	475	155	320
Other Fund Total-Div of Fire Safety		13	13	
Total-Division of Fire Safety	3,029	2,844	2,453	391
Commission on Judicial Tenure & Discipline				
General Revenue Total	115	94	94	
Rhode Island Justice Commission				
General Revenue Total	164	203	203	
Federal Fund Total	4,708	4,269	4,131	138
Restricted Receipts Total	30	30	30	
Total-Rhode Island Justice Commission	4,902	4,502	4,334	168
Municipal Police Training School				
General Revenue Total	426	395	400	(5)
Federal Fund Total	45	80	22	58
Total-Municipal Police Training School	471	475	422	53
Rhode Island State Police				
Airport Corporation		137	137	
RICAP-Headquarters Repair/Renovation	340	342	208	134
Traffic Enforcement-Municipal Training	455	666	582	84
Lottery Commission Assistance	155	139	131	8
Road Construction Reimbursement	2,367	2,615	2,219	396
General Revenue Total	49,047	53,870	53,332	538
Federal Fund Total	1,744	2,078	1,721	357
Restricted Receipts Total	235	614	287	327
General Revenue Total-State Police	49,047	53,870	53,332	538
Federal Fund Total-State Police	1,744	2,078	1,721	357
Restricted Receipts Total-State Police	235	614	287	327
Other Fund Total-State Police	3,316	3,901	3,277	624
Total-Rhode Island State Police	54,343	60,463	58,618	1,845
Office of Public Defenders				
General Revenue Total	9,327	8,549	8,565	(16)
Federal Fund Total	136	261	214	47
Total-Office of Public Defenders	9,462	8,810	8,778	32

Exhibit A-69

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, 2007
(Expressed in Thousands)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Environmental Management				
Office of Director				
General Revenue Total	6,476	6,361	7,292	(931)
Federal Fund Total	1,495	1,587	468	1,119
Restricted Receipts Total	1,895	1,881	2,091	(210)
Total-Office of Director	9,866	9,828	9,850	(22)
Natural Resources				
RICAP-Recreational Facilities Improvement	500	441	297	144
RICAP-Fort Adams Rehabilitation	250	250	250	
RICAP-Wickford Marine Facility	223	733	223	510
Blackstone Bikepath Design	1,285	1,284	490	794
RICAP-Galilee Piers	200	75	15	60
RICAP-Dam Repair	300	26	26	
DOT Recreational Projects	73	125	77	48
General Revenue Total	18,708	18,407	18,607	(200)
Federal Fund Total	19,130	19,828	10,436	9,392
Restricted Receipts Total	4,155	4,375	2,959	1,416
Total-Natural Resources	45,074	45,543	33,380	12,163
Environmental Protection				
General Revenue Total	12,347	11,795	12,173	(378)
Federal Fund Total	13,161	18,103	10,416	7,687
Restricted Receipts Total	11,502	12,637	10,208	2,429
Total-Environmental Protection	37,010	42,536	32,797	9,739
General Revenue Total-DEM	37,530	36,562	38,072	(1,510)
Federal Fund Total-DEM	33,786	39,518	21,320	18,198
Restricted Receipts Total-DEM	17,552	18,893	15,257	3,636
Other Fund Total-DEM	3,082	2,934	1,378	1,556
Total-Department of Environmental Management	91,951	97,907	76,027	21,880
Coastal Resources Management Council				
RICAP-South Coast Restoration Project				
RICAP-Allins Cove		6		6
General Revenue Total	2,113	2,131	2,076	55
Federal Fund Total	1,599	2,060	1,659	401
Restricted Receipts Total	3,195	989	163	826
General Revenue Total-Coastal Resources	2,113	2,131	2,076	55
Federal Fund Total-Coastal Resources	1,599	2,060	1,659	401
Restricted Receipts Total-Coastal Resources	3,195	989	163	826
Other Fund Total-Coastal Resources		6		6
Total-Coastal Resources Management Council	6,907	5,185	3,898	1,287
Water Resource Board				
RICAP-Big River Management Area	81	90	81	9
General Revenue Total	1,937	1,737	1,648	89
Federal Fund Total		64	64	

	Original Budget	Final Budget	Actual	Variance
Restricted Receipts Total	400	46		46
General Revenue Total-Water Resources Board	1,937	1,737	1,648	89
Federal Fund Total-Water Resources Board		64	64	
Restricted Receipts Total-Water Resources Board	400	46		46
Other Fund Total-Water Resources Board	81	90	81	9
Total-Water Resources Board	2,418	1,937	1,793	144
Total Departmental Expenditures	5,149,459	5,197,756	5,052,778	144,978
Transfer of Excess Budget Reserve to Bond Capital Fund			62,682	(62,682)
Total Expenditures	5,149,459	5,197,756	5,115,460	82,296
Change in Fund Balance	\$ 50,437	\$ 17,948	(59,031)	\$ (76,979)
Fund balance - beginning			203,197	
Fund balance - ending			\$ 144,166	
General Revenue Total	3,213,391	3,216,695	3,217,761	(1,066)
Federal Fund Total	1,697,574	1,730,406	1,629,715	100,691
Restricted Receipts Total	124,302	135,119	100,401	34,718
Other Fund Total	114,192	115,536	104,901	10,635
Total Expenditures	\$ 5,149,459	\$ 5,197,756	\$ 5,052,778	\$ 144,978

** Certain totals may not add due to rounding.

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 144,000	\$ 140,550	\$ 141,138	\$ 588
Departmental restricted revenue	3,067	645	875	230
Federal grants	237,747	272,660	239,621	(33,039)
Other revenues	3,100	10,894	7,779	(3,115)
Total revenues	387,914	424,749	389,413	(35,336)
Other financing sources:				
Operating transfers in			35,397	35,397
Payments from component units			18	18
Total revenues and other financing sources	387,914	424,749	424,828	79
Expenditures:				
Central Management				
Gasoline Tax	3,098	3,472	3,602	(130)
Federal Funds	5,162	17,148	5,835	11,313
Total - Central Management	8,260	20,620	9,437	11,183
Management and Budget				
Gasoline Tax	1,709	4,528	3,428	1,100
Total - Management and Budget	1,709	4,528	3,428	1,100
Infrastructure - Engineering				
Gasoline Tax	49,053	47,512	47,234	278
RICAP - RIPTA Land and Buildings		101	101	
Train Station	25	60	60	
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,186	6,689	2,497
Federal Funds	232,585	255,512	225,508	30,004
Restricted Receipts	3,067	645	1,452	(807)
Subtotal - Infrastructure - Engineering	287,730	314,360	281,044	33,316
State Match - FHWA			40,194	(40,194)
Total - Infrastructure - Engineering	287,730	314,360	321,238	(6,878)
Infrastructure - Maintenance				
Gasoline Tax	41,065	36,791	34,584	2,207
Outdoor Advertising	75	203		203
Nonland Surplus		373		373
Total - Infrastructure - Maintenance	41,140	37,367	34,584	2,783
Total Expenditures	338,839	376,875	368,687	8,188
Other financing uses:				
Transfers to other funds				
Gas tax			46,938	
Other			445	
Total expenditures and other financing uses			416,070	
Net change in fund balance			8,758	
Fund balance - beginning			24,061	
Fund balance - ending			\$ 32,819	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2007
(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)
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%
06/30/2004	5,543,427	9,328,983	3,785,556	59.4%	1,472,620	257.1%
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)
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%
06/30/2004	24,767	32,689	7,922	75.8%	11,422	69.4%
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)
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%
06/30/2004	16,019	21,846	5,827	73.3%	5,638	103.3%

Exhibit A-71

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

For the fiscal year ended June 30, 2007 expenditures exceeded appropriations in the following department and agency programs, (expressed in thousands):

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Department of Administration			
Facilities Management			
General Revenue Total	39,165	39,655	(490)
Information Technology			
General Revenue Total	20,889	21,042	(153)
Restricted Receipts Total	1,461	1,869	(408)
Other Fund Total	1,272	2,453	(1,181)
General			
EDC-RI Airport Corporation Impact Aid	1,754	2,754	(1,000)
Motor Vehicle Excise Tax Payment	136,229	136,230	(1)
Property Valuation	2,000	2,186	(186)
Federal Fund Total	35	203	(168)
Debt Service Payments			
RIRBA-DLT Temporary Disability Insurance	46	62	(16)
Investment Receipts-Bond Funds		32	(32)
Debt Service Payments	86,601	86,817	(216)
Department of Business Regulations			
Banking Regulation			
General Revenue Total	2,775	2,840	(65)
Department of Labor and Training			
Workforce Regulation and Safety			
General Revenue Total	3,382	3,383	(1)
Income Support			
General Revenue Total	3,259	3,270	(11)
Department of State			
Administration			
General Revenue Total	1,661	1,691	(30)
State Archives			
Federal Fund Total	85	87	(2)
Restricted Receipts Total	217	270	(53)
Elections			
Federal Fund Total	858	889	(31)
Department of Revenue			
Office of Revenue Analysis			
General Revenue Total		177	(177)
Department of Children, Youth, and Families			
Central Management			
Federal Fund Total	3,135	3,338	(203)
Juvenile Correctional Services			
General Revenue Total	31,626	31,969	(343)
Child Welfare			
General Revenue Total	107,768	112,150	(4,382)
Department of Elderly Affairs			
General Revenue Total	17,418	17,672	(254)

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Department of Health			
Family Health			
General Revenue Total	2,934	2,952	(18)
Disease Prevention and Control			
Walkable Communities Initiative	27	30	(3)
Department of Human Services			
Individual and Family Support			
General Revenue Total	23,140	23,254	(114)
Restricted Receipts Total	134	136	(2)
Veterans' Affairs			
General Revenue Total	16,844	17,206	(362)
Federal Fund Total	6,616	6,662	(46)
Medical Benefits			
General Revenue Total			
Hospital	70,211	76,939	(6,728)
Other	50,255	75,948	(25,693)
Federal Fund Total			
Managed Care	239,353	239,468	(115)
Other	56,498	86,025	(29,527)
Family Independence Program			
Child Care	28,905	31,798	(2,893)
State Funded Programs			
Federal Fund Total	83,333	86,907	(3,574)
Department of Mental Health, Retardation, and Hospital			
Central Management			
General Revenue Total	2,148	2,169	(21)
Service for the Developmentally Disabled			
General Revenue Total	118,007	118,047	(40)
Integrated Mental Health Services			
General Revenue Total	43,453	44,544	(1,091)
Department of Elementary and Secondary Education			
Teachers' Retirement			
General Revenue Total	67,260	70,287	(3,027)
Department of Attorney General			
Bureau of Criminal Identification			
General Revenue Total	949	956	(7)
Department of Corrections			
Parole Board			
Federal Fund Total	33	38	(5)
Judicial Department			
Family Court			
General Revenue Total	17,048	17,251	(203)
E-911 Uniform Emergency Telephone System			
General Revenue Total	4,098	4,116	(18)
Restricted Receipts Total	1,259	1,619	(360)

Exhibit A-72

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Municipal Police Training School			
General Revenue Total	395	400	(5)
Office of Public Defenders			
General Revenue Total	8,549	8,565	(16)
Department of Environmental Management			
Office of Director			
General Revenue Total	6,361	7,292	(931)
Restricted Receipts Total	1,881	2,091	(210)
Natural Resources			
General Revenue Total	18,407	18,607	(200)
Environmental Protection			
General Revenue Total	11,795	12,173	(378)
ISTEA Fund			
Central Management			
Gasoline Tax	3,472	3,602	(130)
Infrastructure-Engineering-Garvee/Motor Fuel Tax Bonds			
Restricted Receipts Total	645	1,452	(807)

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

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

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

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

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the RI Capital Fund projects and any unexpended balances designated by the General Assembly.

Appropriations for Medical Benefits in the Department of Human Services are divided into six categories by the Caseload Estimating Conference (Conference). For the first time, in May 2007, the Conference recognized the reassignment of certain costs recorded in the "Other" line item account as "Long-Term Care" costs, a new line item category of Medicaid expenditures, in conjunction with RIGL 40-8.9-4 of the Long Term Care Service and Reform Act. Contrary to this new budget categorization, the actual expenditures were recorded in the "Other" line item category due to the fact that the Medicaid Management Information System was not programmed to reflect this new account creation. This mismatch between actual and budgeted expenditures occurred for both general and federal revenue funding sources.

The General Assembly authorized the transfer of \$19.4 million from the State's budget reserve account for fiscal 2007 to avert a budget deficit caused by a revenue shortfall. The amount reported as the "Transfer of Excess Budget Reserve to Bond Capital Fund" is net of this transfer from the budget reserve.

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Exhibit B – State Economic Information

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Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced an average annual population increase of 0.3 percent between 1993 and 2007. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.4 percent in 2007. The 2000 United States census count for Rhode Island was 1,050,742 or 4.4 percent more than the 1,005,995 counted in 1990. In contrast, the total United States population increased by 13.0 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has grown to 1,057,832 as of December 2007.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1993 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2007, Rhode Island per capita personal income was \$39,463 versus U.S. per capita personal income of \$38,611. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2002 – 2006 period, Rhode Island's average poverty rate was 11.3 percent versus the U.S. average poverty rate of 12.4 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island non-farm employment grew at a rate of 0.5 percent in 2005, 0.5 percent in 2006 and 1.0 percent in 2007. The growth rate for 2007 was 1.0 percent, about the same as the average annual growth rate for RI non-farm employment for the 1993 – 2007 period.

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 30.9 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of March 2007 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1991-92 academic year. For 2005-06 Rhode Island spent 42.2 percent more per pupil than the national average.

Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the past ten years, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

Between 1997 and 2007 Rhode Island's population increased by 3.2 percent, compared to a 4.6 percent increase for the New England region, and a 10.6 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1994 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.2 percent compared to 2.5 percent for New England as a whole. The 2007 population estimates indicate that Rhode Island's population growth rate, at -0.4 percent over 2006, is again lower than that of New England's growth rate of 0.2 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1997 to 2007 period, the United States' average annual population growth rate was 1.0 percent.

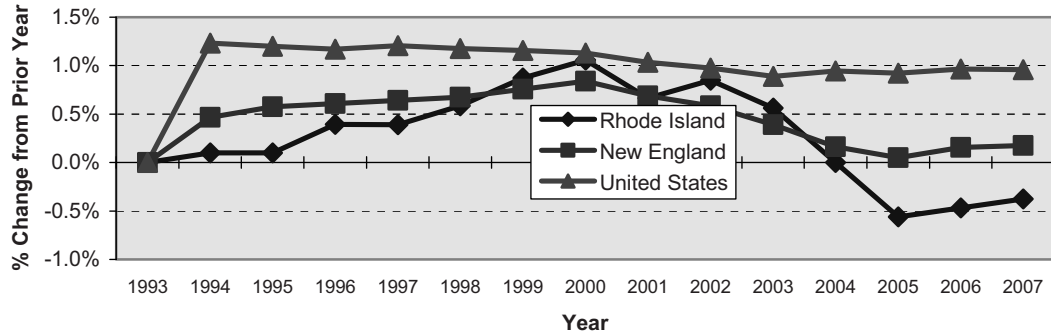
Population, 1993 - 2007
(in thousands)

Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1993	1,015	-	13,334	-	259,919	-
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,051	1.1%	13,954	0.8%	282,194	1.1%
2001	1,058	0.7%	14,050	0.7%	285,112	1.0%
2002	1,067	0.9%	14,132	0.6%	287,888	1.0%
2003	1,073	0.6%	14,187	0.4%	290,448	0.9%
2004	1,073	0.0%	14,210	0.2%	293,192	0.9%
2005	1,067	-0.6%	14,217	0.0%	295,896	0.9%
2006	1,062	-0.5%	14,239	0.2%	298,755	1.0%
2007	1,058	-0.4%	14,264	0.2%	301,621	1.0%

U.S. Department of Commerce. Bureau of Economic Analysis

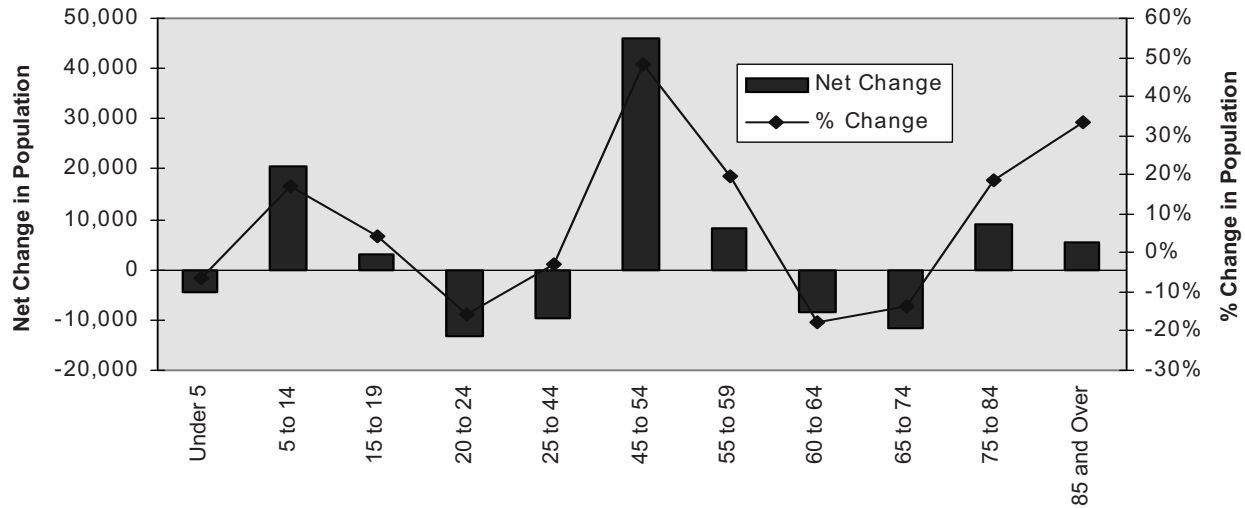
The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.

Percentage Change in Total Population, 1993 - 2007



The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. The upswing in Rhode Islanders in the “5 to 14” age group is a reflection of the “baby boom echo” generation.

Change in Rhode Island Population by Age, 1990 - 2000

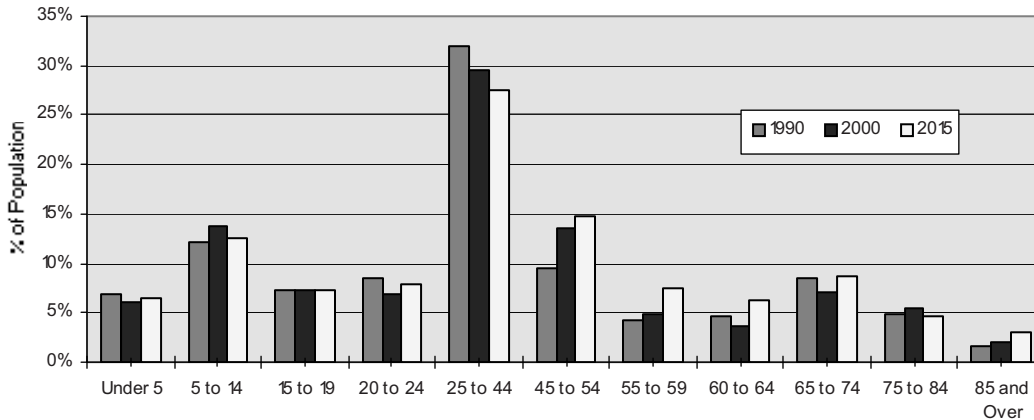


Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the “baby boom” generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders is projected to rise to 38.2.

Distribution of Rhode Island Population by Age



U.S. Census Bureau

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States from 2001 to 2007. Over this period, Rhode Island per capita nominal personal income averaged \$871 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$442. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1993 – 2007 by an average of \$5,337. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at \$6,904 in 2000 and again in 2007 at \$7,485. In 2003, the gap had fallen 23.9 percent to \$5,253 but rose by 42.5 percent by 2007.

From 1993 to 1998, the relationship between per capita real income growth in Rhode Island alternately exceeded and trailed that of the United States. From 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. However, from 2001 – 2007, this pattern reversed itself again exceeding that of the United States. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. Over the fifteen year period from 1993 to 2007, Rhode Island per capita real income growth has exceeded that of New England as a whole on five occasions, including 1995, 2001 – 2003 and 2005.

Per Capita Personal Income, 1993 - 2007

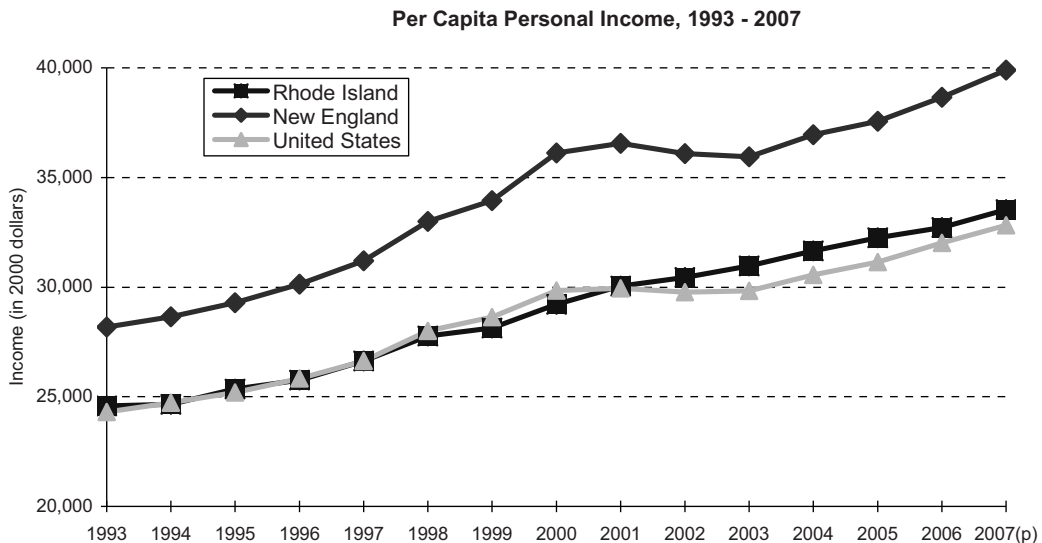
Year	Nominal Income (in current dollars)			2000 Deflator	Real Income (in 2000 dollars)			Percentage Change in Real Income		
	R.I.	N.E.	U.S.		R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1993	21,586	24,752	21,346	87.81%	24,584	28,190	24,311	-	-	-
1994	22,097	25,687	22,172	89.65%	24,648	28,653	24,732	0.3%	1.6%	1.7%
1995	23,225	26,832	23,076	91.58%	25,360	29,299	25,198	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	93.55%	25,768	30,138	25,842	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	95.12%	26,641	31,210	26,634	3.4%	3.6%	3.1%
1998	26,670	31,677	26,883	96.00%	27,781	32,997	28,003	4.3%	5.7%	5.1%
1999	27,459	33,126	27,939	97.58%	28,140	33,948	28,632	1.3%	2.9%	2.2%
2000	29,213	36,117	29,845	100.00%	29,213	36,117	29,845	3.8%	6.4%	4.2%
2001	30,684	37,323	30,574	102.09%	30,056	36,559	29,948	2.9%	1.2%	0.3%
2002	31,527	37,364	30,821	103.54%	30,449	36,087	29,767	1.3%	-1.3%	-0.6%
2003	32,697	37,950	31,504	105.60%	30,963	35,938	29,833	1.7%	-0.4%	0.2%
2004	34,318	40,058	33,123	108.39%	31,662	36,957	30,559	2.3%	2.8%	2.4%
2005	35,987	41,909	34,757	111.58%	32,252	37,560	31,150	1.9%	1.6%	1.9%
2006	37,523	44,327	36,714	114.68%	32,720	38,653	32,014	1.4%	2.9%	2.8%
2007(p)	39,463	46,948	38,611	117.66%	33,540	39,901	32,816	2.5%	3.2%	2.5%

U.S. Department of Commerce. Bureau of Economic Analysis

Note: The 2000 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures.

(p) = Preliminary estimate.

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1993. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2007 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1993 – 2007 period.



Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total

annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1993, average annual pay in Rhode Island was 94.4 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004 through 2007, average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

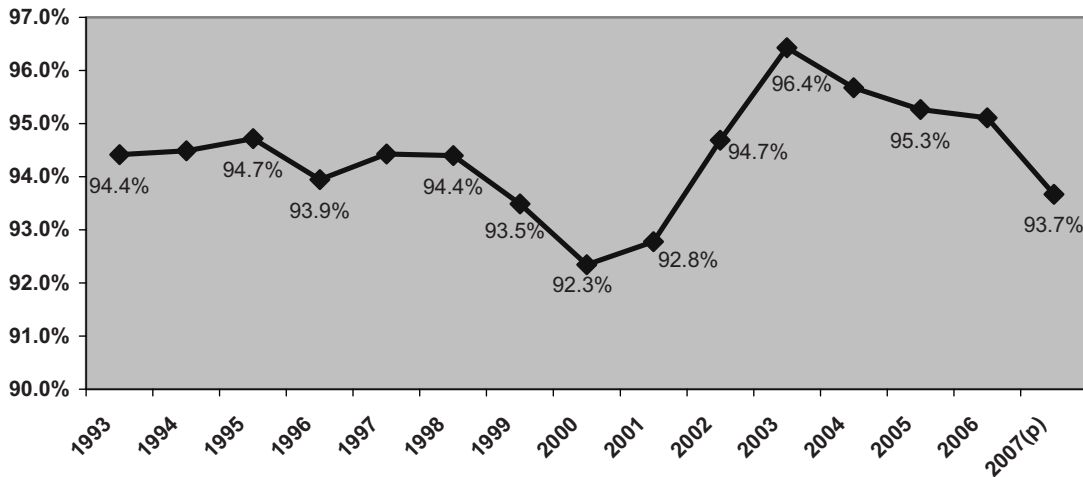
Average Annual Pay, 1993 - 2007
(in current dollars)

Year	Annual Pay		Ratio R.I. / U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1993	24,889	26,361	94.4%	-	-
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	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(p)	41,636	44,450	93.7%	2.9%	4.5%

U.S. Department of Labor. Bureau of Labor Statistics
(p) = Preliminary

The following chart plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1993 – 2007 period.

Ratio of Rhode Island Average Annual Wages / U.S. Average Annual Wages
1993 - 2007



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1993 and 2007. 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 1993 to 2007, the consumer price inflation in the Northeast consistently 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 1994 – 1996, 1998 and 1999. 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 has 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 2007 the rate was 0.2 percent below the United States.

**Consumer Price Index for All Urban Consumers (CPI-U), 1993 - 2007
(1982 – 1984 = 100)**

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1993	151.4	144.5	104.8%	-	-
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
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%

U.S. Department of Labor. Bureau of Labor Statistics

Poverty. From 1992 – 2006 the Rhode Island 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. Between 1992 and 2006, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.6 percent in 2001 to a high of 12.7 percent in 1997. 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 1993. Interestingly, in the 2002, 2003 and 2005 periods, although Rhode Island’s poverty rate has remained below that of the United States, the percentage change in Rhode Island’s poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1992 through 2006.

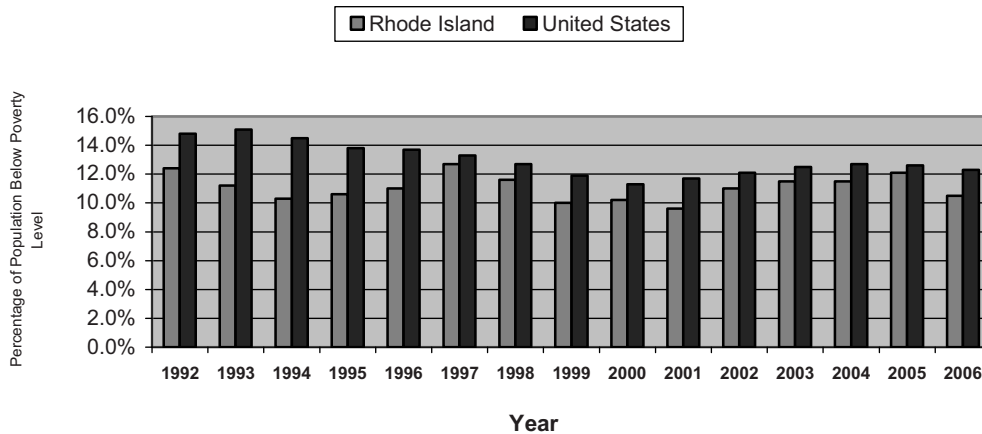
Poverty Rate, 1992 - 2006

Year	Poverty Rate		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1992	12.4	14.8	83.8%	-	-
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
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%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1992 – 2006. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.

Poverty Rate, 1992 - 2006



Employment

The table below shows Rhode Island Nonfarm Employment for the 1993 to 2007 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Non-Farm Employment by Industry, 1993 – 2007

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
	Number 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
1993	12,800	-	83,600	-	71,200	-	74,700	-	74,200	-	52,100	-	61,400	-	430,000	-
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	440,100	1.4%
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	441,600	0.3%
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	450,000	1.9%
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	458,000	1.8%
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	465,500	1.6%
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	476,700	2.4%
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	478,400	0.4%
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	479,400	0.2%
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	484,300	1.0%
2004	21,000	0.0%	56,900	-3.1%	80,000	-1.0%	98,700	4.2%	92,900	2.1%	73,100	1.5%	65,800	-0.6%	488,400	0.8%
2005	22,100	5.2%	54,900	-3.5%	80,100	0.1%	100,200	1.5%	95,300	2.6%	73,500	0.5%	64,900	-1.4%	491,000	0.5%
2006	23,300	5.4%	52,700	-4.0%	79,800	-0.4%	102,700	2.5%	97,000	1.8%	73,200	-0.4%	64,800	-0.2%	493,400	0.5%
2007	24,400	4.7%	51,000	-3.2%	80,000	0.3%	105,600	2.8%	98,600	1.6%	74,300	1.5%	64,400	-0.6%	498,400	1.0%

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1993 and 2007, total nonfarm employment in Rhode Island increased by 15.9 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing, which declined by 39.0 percent. The economic recovery that took hold in Rhode Island in 1992 resulted in total employment gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the “jobless” recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent then began declining again in 2004, 2005 and 2006 at rates of 0.8 percent, 0.5 percent and 0.5 percent respectively, before moving higher in 2007.

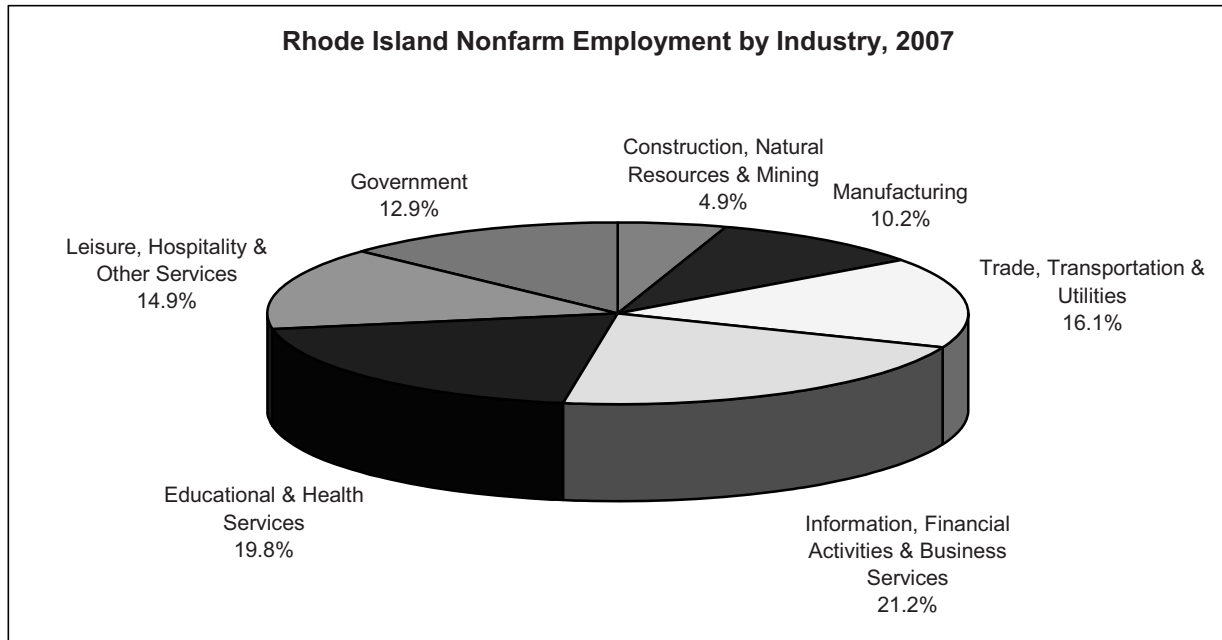
Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1997 to 2007. Total nonfarm employment increased by 10.8 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 33.1 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 29.9 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 64.9 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1997 to 2007 period, transforming from a manufacturing based economy to service based economy.

Rhode Island Non-Farm Employment by Industry, 1997 & 2007

Employment Sector	1997	% of Total	2007	% of Total	% Change 1997-2007
Construction, Natural Resources & Mining	14,800	3.3%	24,400	4.9%	64.9%
Manufacturing	76,200	16.9%	51,000	10.2%	-33.1%
Trade, Transportation & Utilities	72,900	16.2%	80,000	16.1%	9.7%
Information, Financial Activities & Business Services	82,500	18.3%	105,600	21.2%	28.0%
Educational & Health Services	80,700	17.9%	98,600	19.8%	22.2%
Leisure, Hospitality & Other Services	59,600	13.2%	74,300	14.9%	24.7%
Government	63,200	14.0%	64,400	12.9%	1.9%
Total Employment	450,000	100.0%	498,400	100.0%	10.8%

R.I. Department of Labor and Training. Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Information, Financial Activities and Business Services sector, with 21.2 percent of the nonfarm work force in 2007, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.8 percent), Trade, Transportation and Utilities (16.1 percent), and Leisure, Hospitality and Other Services employment (14.9 percent).



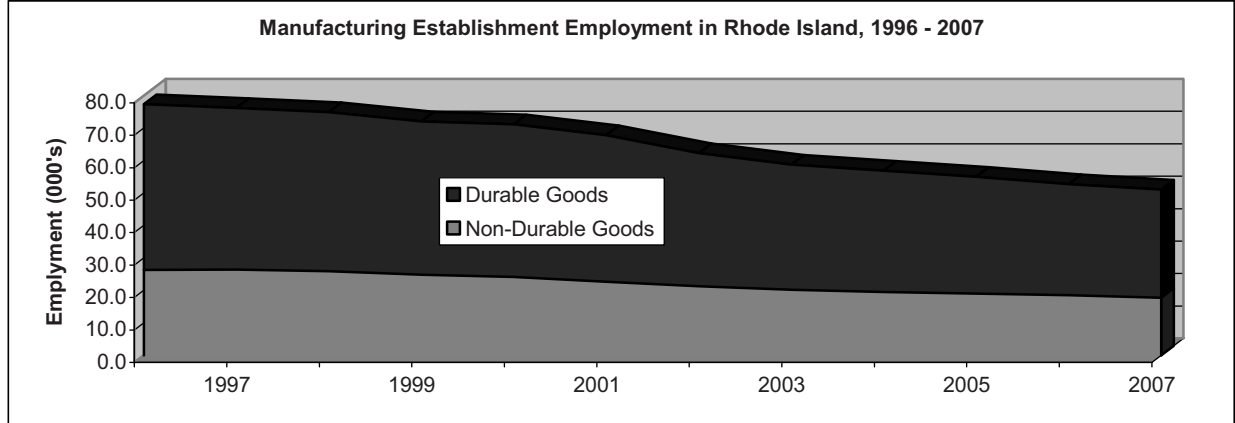
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1996 and 2007, falling by 34.1 percent over this period. The rate of decline 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 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 3.1 percent in 2004, 3.5 percent in 2005, 4.0 percent in 2006 and 3.2 percent in 2007, consistent with the overall recovery in the national economy.

Manufacturing Establishment Employment in Rhode Island, 1996 - 2007
(In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Non-Durable Goods	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	19.0	18.5	17.7
Percentage Change	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.6%	-4.3%
Durable Goods	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4	36.0	34.2	33.3
Percentage Change	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%	-3.7%	-5.0%	-2.6%
Total Manufacturing Employment	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	56.9	54.9	52.7	51.0
Percentage Change	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%	-3.5%	-4.0%	-3.2%

R.I. Department of Labor and Training. Labor Market Information

Employment in the manufacture of non-durable goods declined in every year since 1996 with the exception of 1997 when it grew at a rate of 0.4 percent. 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 for 2007. Together, the top 100 employ an estimated 155,000 persons, which is one-third of total nonfarm wage and salary employment in the State, excluding municipal employment.

Rhode Island's Largest Employers

Employed	Employer	Primary Business Activity
11,694	Lifespan	Hospital
11,372	State of Rhode Island - <i>excluding URI, RIC, and CCRI</i>	Government
9,846	U.S. Government (excluding military)	Government
6,561	Care New England	Hospital
6,200	Diocese of Providence	Catholic Church
5,780	CVS Corporation	Pharmacies
5,500	Citizens Financial Group (Royal Bank of Scotland)	Bank
4,500	Bank of America Corp.	Bank
4,443	Brown University	University
4,385	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Grocery Stores
2,777	Rhode Island ARC	Association for Retarded Citizens
2,245	University of Rhode Island	University
2,200	Fidelity Investments	Investment Services
2,143	General Dynamics Corp.	Ship & Boat Building Mfg.
2,115	The Jan Companies	Eating Places
2,100	WAL-Mart	Retail
2,079	St. Joseph Health Services of Rhode Island	Hospital
2,056	MetLife Property & Casualty Insurance Co.	Insurance
1,828	Rite Aid Pharmacy	Pharmacies
1,760	Shaw's Supermarkets (Supervalu, Inc.)	Grocery Stores
1,750	Raytheon Systems Company	Nautical Systems & Equipment Mfg.
1,733	Memorial Hospital of Rhode Island	Hospital
1,511	Hasbro, Inc.	Toy Manufacturing
1,400	Roger Williams Medical Center	Hospital
1,282	Amica Life Insurance Company	Insurance
1,270	Johnson & Wales University	University
1,265	Twin River (BLB Investors)	Casino
1,260	Cox Communications	Communications
1,250	The Home Depot, Inc.	Building Supplies
1,224	McDonald's	Eating Places
1,205	Verizon Communications	Communications
1,200	Amgen, Inc.	Biotechnology
1,198	Landmark Health System	Hospital
1,167	Securitas AB	Security Services
1,144	American Power Conversion	Uninterruptible Power Supplies & Access.
1,120	South County Hospital	Hospital
1,080	Blue Cross & Blue Shield of R.I.	Medical Insurance
1,080	AAA Southern New England	Travel
1,074	GTECH Corporation	Lottery Systems
1,050	National Grid	Power Generation
1,000	Sovereign Bank	Bank
1,000	United Parcel Service, Inc.	Package Delivery
1,000	Dunkin Donuts, Inc. (estimate)	Eating Places
990	Chelo's	Eating Places
950	Veterans' Administration Medical Center	Hospital
935	Qualified Resources, Inc.	Temporary Employment
933	Rhode Island College	College
930	Providence College	College
912	Rhode Island School of Design	College
867	FM Global	Insurance

R.I. Economic Development Corporation, Research Division.

Unemployment. From 1993 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. With the onset of recession in 1990, this pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. 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 1993 and 2007.

Annual Average Civilian Labor Force and Unemployment, 1993 - 2007
(in thousands)

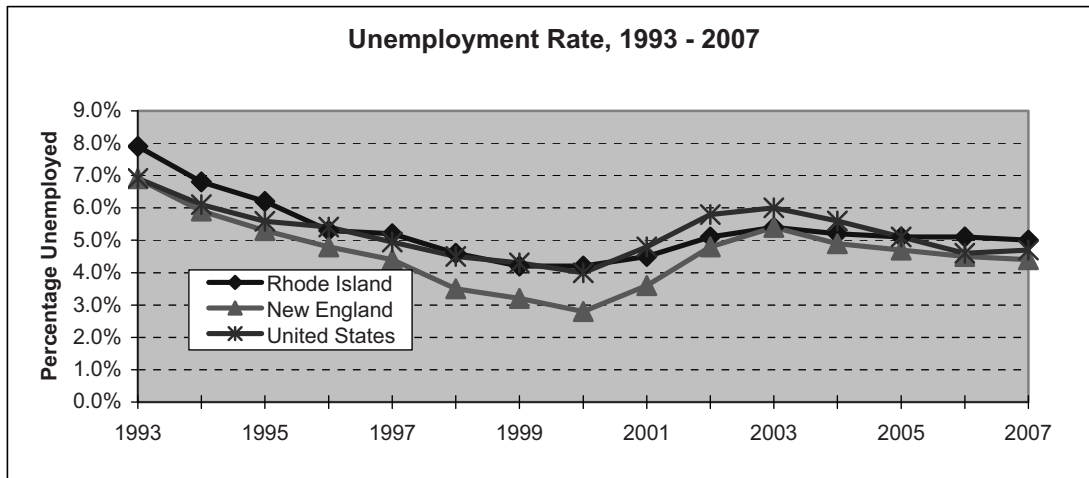
Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
1993	527	7,062	129,200	42	486	8,927	7.9%	6.9%	6.9%	114.4%
1994	516	7,041	131,056	35	415	7,976	6.8%	5.9%	6.1%	111.5%
1995	509	7,053	132,304	31	375	7,407	6.2%	5.3%	5.6%	110.9%
1996	517	7,118	133,943	28	340	7,231	5.3%	4.8%	5.4%	98.0%
1997	532	7,228	136,297	28	315	6,729	5.2%	4.4%	4.9%	105.2%
1998	534	7,257	137,673	24	253	6,204	4.6%	3.5%	4.5%	102.2%
1999	541	7,327	139,368	23	234	5,879	4.2%	3.2%	4.3%	97.7%
2000	543	7,348	142,583	23	204	5,685	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,830	4.5%	3.6%	4.8%	93.8%
2002	554	7,496	144,863	28	363	8,376	5.1%	4.8%	5.8%	87.9%
2003(d)	564	7,508	146,510	30	407	8,771	5.4%	5.4%	6.0%	90.0%
2004(d)	557	7,481	147,401	29	366	8,142	5.2%	4.9%	5.6%	92.9%
2005(d)	565	7,520	149,320	29	353	7,580	5.1%	4.7%	5.1%	100.0%
2006(d)	575	7,607	151,428	29	345	6,994	5.1%	4.5%	4.6%	110.9%
2007(d)	577	7,648	153,124	29	340	7,080	5.0%	4.4%	4.7%	106.4%

U.S. Department of Labor. Bureau of Labor Statistics

(d) Reflects revised population controls and model reestimation for 2003-2007.

In August of 2008, the State's unemployment rate was 8.5%, 139% of the U.S. unemployment rate of 6.1%.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1993 - 2007 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

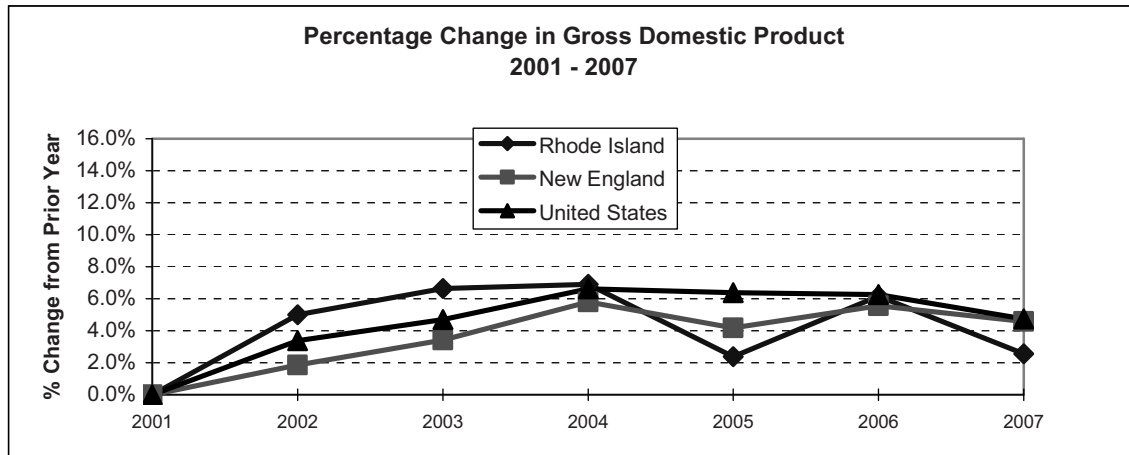
From 2002 – 2004, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2005 - 2007 Rhode Island GDP growth fell behind that of the United States. During the 2001 – 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, both United States GDP growth and New England GDP growth overtook that of Rhode Island for the first time in four years. The table below gives the Gross Domestic Product and the annual growth rates for Rhode Island, New England, and the United States over the 2001 – 2007 period.

Gross Domestic Product, 2001 - 2007 (millions of current dollars)

Year	Rhode Island		New England		United States	
	GDP	Change	GDP	Change	GDP	Change
2001	35,149	-	580,920	-	10,058,168	-
2002	36,909	5.0%	591,733	1.9%	10,398,402	3.4%
2003	39,357	6.6%	612,006	3.4%	10,886,172	4.7%
2004	42,073	6.9%	647,473	5.8%	11,607,041	6.6%
2005	43,078	2.4%	674,562	4.2%	12,346,871	6.4%
2006	45,733	6.2%	712,051	5.6%	13,119,938	6.3%
2007	46,900	2.6%	744,672	4.6%	13,743,021	4.7%

U.S. Department of Commerce. Bureau of Economic Analysis

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2001 - 2007 period. It demonstrates that from 2001 to 2004, Rhode Island's GDP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GDP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



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 all sectors from 2001 to 2007.

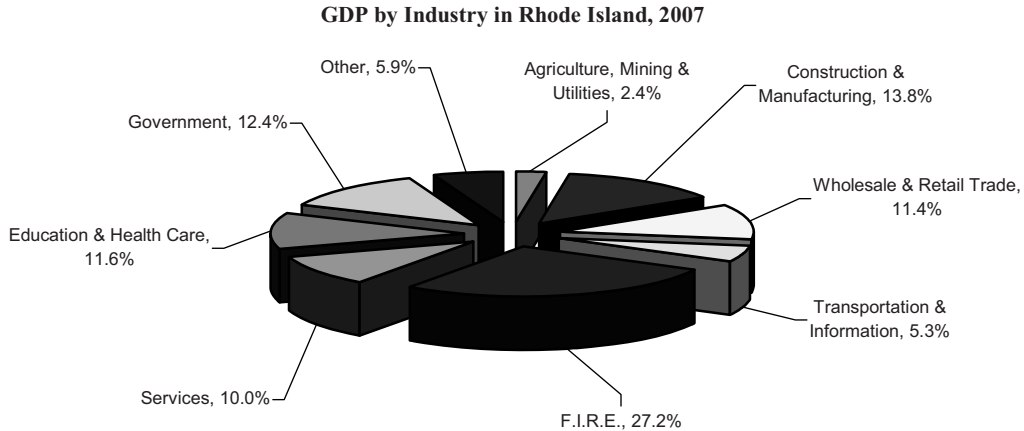
Gross Domestic Product by Industry in Rhode Island, 2001 - 2007
(millions of current dollars)

Industrial Sector	2001	2002	2003	2004	2005	2006	2007
Agriculture, forestry, fishing and hunting	85	83	88	94	86	93	97
Mining	16	19	20	29	28	28	33
Utilities	731	671	739	794	823	921	973
Construction	1,699	1,730	1,925	2,001	2,220	2,259	1,969
Manufacturing	3,928	4,126	3,806	4,320	3,876	4,305	4,479
Wholesale Trade	1,746	1,862	1,988	2,104	2,219	2,295	2,443
Retail Trade	2,254	2,472	2,613	2,692	2,740	2,729	2,915
Transportation and warehousing, excluding postal service	529	557	615	624	617	669	673
Information	1,301	1,355	1,483	1,675	1,787	1,802	1,809
Finance and insurance	4,773	4,804	5,075	5,434	5,219	5,758	5,697
Real estate, rental and leasing	4,741	5,000	5,553	6,043	6,375	6,726	7,073
Professional and technical services	1,831	1,859	1,948	2,119	2,226	2,548	2,469
Management of companies and enterprises	523	517	813	795	919	1,025	1,074
Administrative and waste services	833	831	885	974	1,052	1,100	1,151
Educational services	716	779	825	896	953	1,007	1,071
Health care and social assistance	3,061	3,397	3,618	3,829	3,993	4,192	4,373
Government	4,318	4,615	4,992	5,183	5,372	5,615	5,822
Other	2,064	2,232	2,371	2,467	2,573	2,661	2,779
Total GDP	35,149	36,909	39,357	42,073	43,078	45,733	46,900

U.S. Department of Commerce. Bureau of Economic Analysis

Gross State Product by Industry in Rhode Island

The pie chart below shows the share of total Gross State Product in 2007 attributable to each of the industry sectors noted above.



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contributed 27.2 percent of GDP in 2007. In 2007, F.I.R.E. accounted for \$12.8 billion of total gross domestic product of \$46.9 billion. For the period 2001 – 2007 this sector expanded by a respectable 34.2 percent.

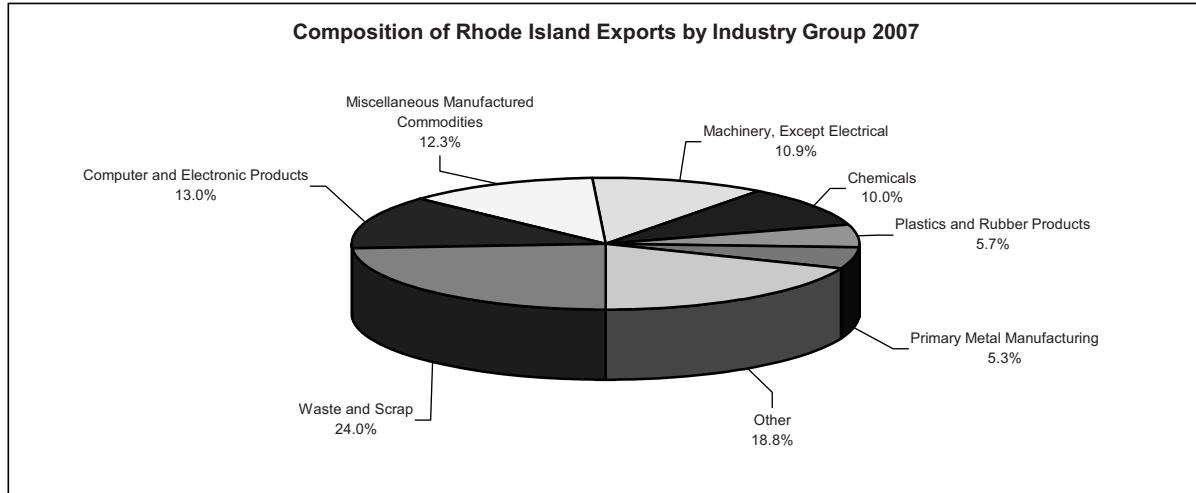
Construction and Manufacturing. In 2007, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.4 billion, or 13.7 percent of the total Gross Domestic Product. This sector increased by 14.6 percent from the 2007 level although it decreased in percent contribution to GDP. In 2001, Construction and Manufacturing comprised a slightly larger piece of GDP at 16.0 percent of the total.

Government. At 12.4 percent of GDP in 2007, the Government sector has grown slowly and steadily since 2001. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2007 than it did in 2001. In 2001, the Government sector accounted for 12.3 percent of GDP. The growth rate in 2002 was 6.9 percent, in 2003 it was 8.2 percent, in 2004 it was 3.8 percent, in 2005 it was 3.6 percent, in 2006 it was 4.5 percent and in 2007 it was 3.7 percent. In 2007, the Government sector contributed \$5.8 billion to 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 2001, Services have remained an integral sector accounting for 27.5 percent of Rhode Island's GDP in 2007. From 2001 to 2007, Services have grown by 43.1 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2004 was \$1.3 billion. This represented 3.1 percent of Rhode Island Gross Domestic Product of \$42.1 billion. In 2007, Rhode Island's exports increased to \$1.6 billion, or 3.5 percent of Rhode Island Gross State Product.



The most important exports, as shown in the pie chart above, were waste and scrap (24.0 percent), computer and electronic products (13.0 percent), miscellaneous manufactured commodities (12.3 percent), machinery, except electrical (10.9 percent) and chemicals (10.0 percent).

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2004-2007 period.

Rhode Island Exports by Industry, 2004 – 2007
(In thousands of dollars)

	2004	2005	2006	2007
Total All Industries	1,286,324	1,268,589	1,531,227	1,646,587
Waste and Scrap	157,435	158,093	278,142	395,498
Computer and Electronic Products	254,324	171,883	178,440	214,218
Miscellaneous Manufactured Commodities	203,171	208,824	222,565	201,904
Machinery, Except Electrical	128,390	133,527	173,341	179,017
Chemicals	122,716	130,465	137,339	164,464
Plastics and Rubber Products	83,045	83,600	87,900	94,124
Primary Metal Manufacturing	70,252	84,330	129,664	87,318
Electrical Equipment, Appliances and Component	51,387	56,096	68,688	72,611
Transportation Equipment	30,687	44,073	49,361	63,546
Fabricated Metal Products, NESOI	52,316	45,481	55,925	48,385
Textiles and Fabrics	31,162	35,914	29,270	26,696
Fish - Fresh, Chilled or Frozen & Other Marine Products	17,653	24,823	35,882	23,838
Paper	17,243	17,360	17,895	15,832
Nonmetallic Mineral Products	10,567	7,297	8,900	9,278
Special Classification Provisions, NESOI	7,619	8,367	10,558	8,967
Printing, Publishing and Similar Products	8,159	13,377	11,996	8,046
Furniture and Fixtures	7,254	5,611	4,765	5,866
Textile Mill Products	9,019	7,824	4,622	5,090
Food and Kindred Products	11,096	16,417	8,918	5,007
Apparel and Accessories	3,005	3,163	3,684	4,683
Leather and Allied Products	2,060	2,309	2,842	4,011
Minerals and Ores	1,235	1,529	2,856	1,487
Agricultural Products	304	3,223	358	1,422
Used or Second-Hand Merchandise	1,312	827	3,894	1,325
Livestock and Livestock Products	170	167	660	1,301
Petroleum and Coal Products	1,264	1,332	644	912
Wood Products	863	1,209	504	629
Forestry Products, NESOI	1,035	405	712	551
Goods Returned to Canada (Exports Only); U.S. Goods	1,416	800	268	365
Beverages and Tobacco Products	-	40	78	105
Prepackaged Software	165	223	556	91
Oil and Gas	0	4	0	0

(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 1999 the number of housing permits authorized in Rhode Island increased by 22.0 percent. In 2007, the number of housing permits authorized decreased by 15.3 percent in Rhode Island, compared to a decrease of 24.2 percent for New England and a decrease of 25.6 percent for the United States.

Housing Permits Authorized, 1993– 2007
(Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1993	2,588	-	39,694	-	1,208,000	-
1994	2,526	-2.4%	39,977	0.7%	1,367,000	13.2%
1995	2,291	-9.3%	37,385	-6.5%	1,337,000	-2.2%
1996	2,355	2.8%	39,993	7.0%	1,420,000	6.2%
1997	2,729	15.9%	42,302	5.8%	1,442,000	1.5%
1998	2,653	-2.8%	47,915	13.3%	1,619,000	12.3%
1999	3,237	22.0%	47,372	-1.1%	1,662,000	2.7%
2000	2,657	-17.9%	43,755	-7.6%	1,600,000	-3.7%
2001	2,405	-9.5%	42,933	-1.9%	1,639,000	2.4%
2002	2,594	7.9%	47,301	10.2%	1,750,000	6.8%
2003	2,433	-6.2%	48,438	2.4%	1,889,000	7.9%
2004	2,548	4.7%	56,075	15.8%	2,058,000	8.9%
2005	3,020	18.5%	56,905	1.5%	2,162,000	5.1%
2006	2,289	-24.2%	48,117	-15.4%	1,843,000	-14.8%
2007	1,939	-15.3%	36,456	-24.2%	1,372,000	-25.6%

U.S. Department of Commerce. Construction Statistics Division
Federal Reserve Bank of Boston

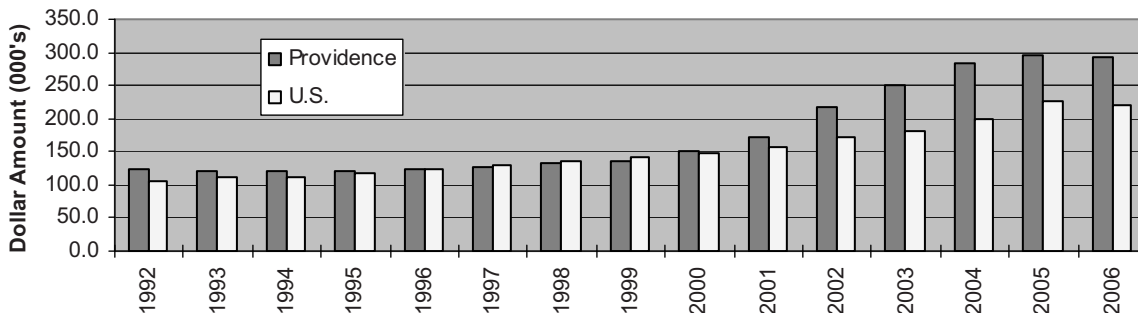
From 1993 – 1999 one of the strongest sectors of the state’s economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.4 percent with the exception of 1994. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing 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.

Existing Home Sales, 1993 - 2007
(In Thousands)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1993	10.7	-	203.7	-	3,731.3	-
1994	10.8	0.9%	208.2	2.2%	3,889.3	4.2%
1995	11.6	7.4%	198.5	-4.7%	3,846.0	-1.1%
1996	12.8	10.3%	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%

National Association of Realtors
Federal Reserve Bank of Boston

**Median Sale Prices of Existing Homes
for the Providence Metropolitan Area and the U.S.
1992 - 2006**



National Association of Realtors
Reserve Bank of Boston

Median sale prices of existing homes for the Providence Metropolitan area and the United States (not seasonally adjusted) appear in the previous chart. While Providence housing prices were 117.0 percent of the U.S. average in 1992, by 1999 they had fallen to 96.3 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices have climbed relative to the U.S. average, hitting a peak of 143.6 percent in 2004. Since then, Providence Metropolitan area home prices have stayed well above the U.S. average and in 2006 stand at 133.0 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 remained flat at \$418 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 2005. Since 1990, Rhode Island’s share of New England contract awards has decreased from 3.9 percent to 2.0 percent of such awards in 2005.

Department of Defense Contract Awards, 1990 – 2005
(In Millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	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%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island travel and tourism industry report, the 2006 Tourism Satellite Account produced by Global Insight and published on September 27, 2007, travel and tourism sales in Rhode Island broke the six billion dollar mark, at \$6.21 billion. This generated 58,900 jobs (10% of the state total) and \$1.4 billion in employee compensation (5.5% of the state total).

Visitation to Rhode Island grew 2.1% in 2006 to 17.46 million travelers. Leisure visitation grew at a rate of 4.2% while business travel experienced a 6% decline during 2006. Business spending made up just under 26% of total expenditures in 2006, compared to just under 20% of total visitation. Business expenditures were up 1.1% in 2006, mainly due to a low concentration in shopping (the lowest performing statewide category) and a strong concentration in food (the best performing statewide category).

Each R.I. visitor/traveler generates about \$464 in expenditures, \$53 of which goes to R.I. businesses that do not directly “touch” that visitor. Every 166 visitors create a new R.I. job. Each visitor creates about \$108 in tax receipts, \$58 of which goes to state & local authorities. It takes only 239 visitors to pay for one Rhode Island public school student for one year. Each R.I. visitor generates \$174 in wages paid to R.I. workers employed across an array of industries. Each visitor adds about \$284 to the state’s Gross State Product.

Travel and tourism industry sales increased by 0.7% during 2006. Entertainment and food sectors had the largest percentage increases in 2006 at 2.3% each. Accommodation sales increased by 2.1% while a modest 0.6% increase in transportation sales was reported. In 2006, retail sales dropped by 5.1%. Travel and tourism industry wages grew by 1.8% during 2006, while job growth remained flat. While tourism is responsible for 4.2% of R.I. GSP, it contributed 10.8% of state government revenue in 2006.

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 1992. The ratio of Rhode Island spending to the national average has varied from 120.8 percent in 1991-92 to a high of 142.2 percent in 2005-06. For the 2005-06 academic year Rhode Island spent 42.2 percent more on public elementary and secondary education than the United States average: \$13,917 per student compared to a national average of \$9,788 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1991-92 academic year. It should be noted that data for the 2005-06 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 1991-92 – 2005-06
 (Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1991-92	6,546	5,421	120.8%
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	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	9,788	142.2%

U.S. Department of Education, National Center for Education Statistics

For the 2005-06 academic year, Rhode Island per pupil expenditures was the fourth 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 2005-06
 (Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	17,877	26	Indiana	9,558
2	New York	16,095	27	Oregon	9,294
3	New Jersey	15,362	28	North Dakota	9,239
4	Rhode Island	13,917	29	Kentucky	8,975
5	Connecticut	13,461	30	Colorado	8,938
6	Vermont	13,377	31	Missouri	8,834
7	Massachusetts	13,128	32	South Carolina	8,795
8	Alaska	12,537	33	Arkansas	8,748
9	Wyoming	12,415	34	Washington	8,702
10	Delaware	12,330	35	Louisiana	8,568
11	Maine	11,760	36	Iowa	8,460
12	Maryland	11,719	37	New Mexico	8,426
13	Pennsylvania	11,530	38	California	8,416
14	Hawaii	10,747	39	Florida	8,376
15	New Hampshire	10,698	40	South Dakota	8,273
16	Michigan	10,598	41	Georgia	8,164
17	Wisconsin	10,484	42	Texas	8,085
18	Ohio	10,306	43	Alabama	7,980
19	Illinois	10,282	44	North Carolina	7,940
20	Nebraska	10,170	45	Nevada	7,720
21	Virginia	10,046	46	Mississippi	7,699
22	Kansas	9,905	47	Arizona	7,637
23	Minnesota	9,761	48	Tennessee	7,580
24	West Virginia	9,756	49	Oklahoma	7,449
25	Montana	9,653	50	Idaho	6,861
			51	Utah	5,809

U.S. Department of Education, National Center for Education Statistics

According to the Rhode Island Office of Higher Education, in fall 2005, the total enrollment in Rhode Island institutions of higher education was 81,382 students, up from the 80,377 students reported in fall 2004. Enrollment increased 0.2 percent in the public sector (+88 students) and increased 2.3 percent in the independent sector (+917 students).

From July 1, 2004 to June 30, 2005, Rhode Island institutions of higher education conferred 16,329 degrees and certificates, a decrease of 2.7 percent over the 16,778 awards of the previous year. In 2004-2005 public institutions of higher education conferred 5,341 or 32.7 percent of all awards, while independent institutions awarded 10,988 or 67.3 percent.

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APPENDIX B-1 – Actual General Fund Cash Flow for Fiscal Year Ended June 30, 2008

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State of Rhode Island
Office of the General Treasurer
Cash Flow Analysis

	Detail Summary - FISCAL 2008												
	July	August	September	October	November	December	January	February	March	April	May	June	TOTAL
	2007	2007	2007	2007	2007	2007	2008	2008	2008	2008	2008	2008	2008
Estimated Beginning Balance	131,366,485	78,286,616	85,557,355	145,265,100	69,291,265	393,335	27,648,491	44,168,840	10,290,807	154,538,984	105,874,212	6,779,851	131,366,485
Deposits/Receipts													
Taxation	256,918,482	180,962,174	232,370,239	196,663,755	173,177,830	196,893,597	256,762,747	190,255,663	316,802,109	352,026,405	197,727,043	358,489,894	2,909,049,939
Motor Vehicles	7,874,481	8,172,878	8,588,997	8,391,675	7,072,277	5,813,017	9,403,459	9,983,221	13,365,715	9,805,615	11,390,688	10,417,958	110,279,981
Historic Tax Cr/EDC	0	0	0	0	0	0	0	0	0	0	0	0	0
Departmental Receipts	3,807,914	1,738,270	2,170,169	992,732	4,032,593	8,794,439	6,204,688	7,739,109	9,169,625	9,711,344	4,946,709	20,851,738	80,159,328
Interdepartment Transfers	41,658,009	41,470,177	51,504,900	42,962,987	69,175,146	47,115,309	43,078,426	52,680,251	51,402,173	51,632,524	58,095,606	54,569,929	605,345,437
Lottery Transfers	0	29,000,000	31,200,000	28,700,000	28,300,000	30,489,832	25,100,000	28,874,574	30,400,000	33,900,000	30,700,000	60,300,000	356,964,406
Federal Grants/Drawdowns	183,545,304	140,760,532	166,819,355	139,122,679	154,976,452	135,062,025	140,452,772	196,500,387	153,001,343	136,092,940	170,396,791	207,065,215	1,923,795,795
TANS Proceeds/TDI	35,000,000	0	0	0	50,000,000	81,000,000	0	22,500,000	16,000,000	0	0	103,710,949	308,210,949
Miscellaneous Receipts	28,792,713	150,045,892	20,491,732	57,785,095	34,853,562	23,922,870	27,747,792	22,019,523	28,146,351	18,197,749	57,942,132	62,980,648	532,926,059
Total Available Cash	688,963,386	630,436,538	598,702,748	619,884,024	590,879,124	529,484,425	536,398,375	574,721,569	628,578,123	765,905,561	637,073,179	885,166,183	6,958,098,380
Less: Disbursements													
Social Programs													
TANF	4,692,181	5,069,426	4,670,694	4,600,413	4,613,374	4,641,064	4,608,353	4,590,252	4,561,615	4,640,585	5,741,339	3,294,207	55,723,504
SSI	4,620,406	2,288,510	2,288,449	2,360,879	0	0	2,359,500	2,300,100	0	0	0	2,341,000	18,558,844
Medicaid	192,728,457	186,378,350	132,303,913	148,685,990	196,389,383	108,118,896	143,572,144	194,621,147	114,130,212	151,684,475	206,090,381	181,666,964	1,956,370,314
DHS - Block Mothers	5,961,431	4,958,542	5,700,318	4,844,815	4,626,419	4,605,025	7,045,109	4,388,413	4,327,312	4,337,868	4,314,947	4,353,448	59,463,646
Payroll/Pension	125,353,988	97,847,113	87,054,781	87,736,885	146,845,722	133,652,363	112,993,371	116,070,201	108,326,560	106,415,726	143,933,836	128,921,438	1,395,151,985
Debt Service	11,000,113	28,631,946	6,031,299	29,971,082	29,563,814	1,180,490	4,754,675	31,796,686	3,704,795	26,680,124	12,694,013	8,925,007	194,934,044
TANS & TDI Repayment	35,000,000	0	0	0	0	50,081,472	0	0	0	0	0	224,514,583	309,596,056
Interfund Transfers	40,730,693	46,752,630	45,154,326	24,061,542	24,072,824	20,001,341	33,302,278	21,640,100	30,105,102	24,801,619	49,033,854	43,374,497	403,030,805
Tax Refunds	6,394,675	7,680,776	3,144,963	7,824,153	11,003,369	6,793,349	6,339,297	53,855,667	55,579,907	54,878,262	30,348,107	10,430,054	254,272,578
Disbursements/Municipal Pmts	184,194,827	165,271,890	167,088,905	240,507,000	173,370,884	172,761,935	177,254,806	135,168,197	153,303,636	286,592,691	178,136,850	163,218,227	2,196,869,848
Total Disbursements	610,676,771	544,879,183	453,437,648	550,592,760	590,485,789	501,835,934	492,229,535	564,430,762	474,039,139	660,031,349	630,293,328	771,039,425	6,843,971,623
Overall Cash Position	78,286,616	85,557,355	145,265,100	69,291,265	393,335	27,648,491	44,168,840	10,290,807	154,538,984	105,874,212	6,779,851	114,126,757	114,126,757

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APPENDIX B-2 – Projected General Fund Cash Flow for Fiscal Year Ending June 30, 2009

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Slate of Rhode Island
Office of the General Treasurer
Cash Flow Analysis
Detail Summary - FISCAL 2009
w/Actual thru October 14, 2008

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	TOTAL 2009
Estimated Beginning Balance	114,126,757	104,484,906	3,455,690	25,975,842	324,983,256	223,527,683	179,457,101	193,212,271	141,045,446	273,290,761	240,874,496	166,929,400	114,126,757
Deposits/Receipts													
Taxation	263,280,153	176,816,494	238,786,983	200,644,814	172,349,759	196,536,293	251,197,569	186,741,872	281,569,246	348,244,914	197,356,316	356,721,319	2,870,266,732
Motor Vehicles	8,735,417	8,244,969	9,307,054	8,491,134	7,072,276	5,813,017	9,403,459	9,983,221	13,365,715	9,805,615	11,390,688	10,417,958	112,030,524
Historic Tax Cr/EDC	0	0	0	0	0	0	0	0	32,210,000	12,530,000	12,530,000	0	57,270,000
Departmental Receipts	4,311,082	2,225,930	1,879,212	3,267,414	4,032,593	8,794,439	6,204,688	7,739,109	9,169,625	9,711,344	4,946,709	20,851,738	83,133,883
Interdepartment Transfers	47,499,514	69,486,572	44,242,430	59,312,040	52,682,920	47,115,309	43,078,428	52,680,251	51,402,173	51,632,522	58,095,608	54,569,929	631,797,693
Lottery Transfers	0	28,800,000	0	23,300,000	28,300,000	30,000,000	25,100,000	33,799,574	35,400,000	39,400,000	40,700,000	80,700,426	365,600,000
Federal Grants/Drawdowns	178,655,770	126,331,807	117,201,538	161,025,697	154,976,452	135,062,025	140,452,771	198,500,387	153,001,343	136,082,940	170,396,791	207,065,215	1,874,762,736
TANS Proceeds/TDI	0	0	25,000,000	350,000,000	0	0	0	0	0	0	0	0	375,000,000
Miscellaneous Receipts	68,049,057	39,773,438	76,626,467	34,171,404	46,244,038	23,922,870	27,747,792	22,019,523	28,148,351	18,197,749	34,267,283	62,980,648	482,146,621
Total Available Cash	682,657,749	556,164,115	516,499,375	868,188,344	790,641,295	670,771,637	682,641,806	702,676,210	745,329,699	898,905,645	770,557,889	960,236,634	6,966,033,947
Less: Disbursements													
Social Programs													
TANF	4,482,016	4,780,080	4,453,390	4,298,412	4,613,375	4,641,064	4,608,353	4,590,252	4,561,615	4,640,585	5,741,339	3,294,207	54,704,687
SSI	2,390,000	2,297,000	2,304,000	2,360,879	2,300,000	2,300,000	2,359,500	2,300,100	2,300,000	2,300,000	2,300,000	2,341,000	27,852,479
Medicaid	205,874,017	190,855,815	149,886,132	98,562,383	196,389,383	108,801,989	143,572,144	194,621,147	114,130,212	151,684,475	206,100,381	181,666,964	1,942,128,043
DHS - Block Mothers	6,491,723	2,644,064	4,686,095	4,342,027	4,626,419	4,605,025	7,045,109	4,388,413	4,327,312	4,337,868	4,314,947	4,353,448	56,162,449
Payroll/Pension	115,365,694	113,719,576	120,737,699	207,411,832	117,202,514	122,447,871	110,193,373	113,270,202	106,326,560	104,415,725	140,933,836	127,496,438	1,499,621,320
Debt Service	13,167,674	36,958,737	14,886,155	12,810,329	29,563,814	1,180,490	4,754,675	31,796,688	3,704,795	26,680,124	12,694,013	8,905,733	197,103,224
TANS & TDI Repayment	0	0	0	0	0	25,081,472	0	0	0	0	0	355,249,833	380,331,305
Interfund Transfers	53,590,492	45,637,891	36,324,466	27,782,275	20,343,854	20,001,341	33,302,278	21,640,100	30,105,102	24,801,619	25,359,016	43,374,497	382,262,931
Tax Refunds	5,852,198	6,777,076	5,973,851	6,565,034	11,003,369	6,793,349	6,339,297	53,855,667	55,579,907	54,878,262	30,348,107	10,430,054	254,396,171
Disbursements/Municipal Prmts	170,959,029	149,038,186	151,291,745	177,071,917	181,070,884	195,461,936	177,254,806	135,168,198	151,003,636	284,292,691	175,836,851	163,218,227	2,111,668,104
Total Disbursements	578,172,843	552,708,425	490,523,533	541,205,088	567,113,612	491,314,536	489,429,535	561,630,784	472,039,139	658,031,349	603,628,489	900,330,401	6,906,127,714
Overall Cash Position	104,484,906	3,455,690	25,975,842	324,983,256	223,527,683	179,457,101	193,212,271	141,045,446	273,290,761	240,874,496	166,929,400	59,906,233	59,906,233

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State of Rhode Island
and Providence Plantations
State House
Providence, Rhode Island

Re: \$350,000,000 State of Rhode Island and Providence Plantations
General Obligation Tax Anticipation Notes Fiscal Year 2009 dated
October [], 2008 (the "Notes")

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 Notes. 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 [], 2008 (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 Notes 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 Notes as the same shall come due.
2. The interest on the Notes is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Notes will, however, be included in the calculation of adjusted current earnings for the purpose of

computing the alternative minimum tax imposed on corporations. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Noteholders. The scope of this paragraph of the opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Notes.

We call your attention to the fact that interest on the Notes may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Note proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Notes from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Notes to become includible in gross income.

We express no opinion regarding other federal tax consequences arising with respect to the Notes.

3. The Notes are exempt from Rhode Island taxes, although the Notes and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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