

In the opinion of Partridge Snow & Hahn LLP, special counsel, under existing law, and assuming compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and except as otherwise described herein, the portion of the 2007 Series A Lease Payments, the 2007 Series B Lease Payments and the 2007 Series C Lease Payments (collectively the "Lease Payments") distributable respectively to Owners of the 2007 Series A Certificates, the 2007 Series B Certificates, and the 2007 Series C Certificates (collectively, the "Certificates") as interest to the extent such Lease Payments are appropriated by the State and received by the Owners of the Certificates 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. However, the portion of each payment distributable to Owners of the Certificates as interest will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Owner's adjusted current earnings. The portion of each of the Lease Payments distributable to Owners of the Certificates as interest is excludable from gross income for Rhode Island personal income tax purposes to the extent that such interest is excludable from gross income for federal income tax purposes. See "TAX STATUS" and "APPENDIX B — Proposed Forms of Legal Opinion" herein.

\$23,490,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Information Technology Project – 2007 Series A)

\$12,735,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Energy Conservation Project – 2007 Series B)

\$9,100,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (State Vehicles Project – 2007 Series C)

Dated: Date of Delivery

Due: May 1, as shown on the inside front cover

Each series of the Certificates represent undivided interests in the related Lease Payments to be made by the State of Rhode Island and Providence Plantations (the "Lessee") under the related Sublease as more fully described herein. The State is obligated under the related Sublease to make Lease Payments equal to the principal of and interest on the applicable series of Certificates. The State's obligation to make the related Lease Payments and any other obligations of the State under the related Sublease are subject to and dependent upon annual appropriations made by the State for such purposes. (See "SECURITY FOR THE CERTIFICATES" and "CERTIFICATE OWNERS' RISKS" herein.)

Payment of the principal portions of and interest portions on the Certificates will be made solely from amounts derived under the terms of the related Sublease, including the related Lease Payments, and amounts from time to time on deposit under the terms of the related Declaration of Trust executed in connection with the related Certificates, as more fully described herein. The failure of the State to appropriate funds for the Lease Payments will result in termination of the applicable Sublease. Should such applicable Sublease terminate, there can be no assurance that the related Certificates will be repaid. Special counsel will express no opinion as to tax exemption upon termination of any of the Subleases and, following termination of any such Sublease, transfer of the related Certificates may be subject to compliance with the registration provisions of state and federal securities laws. (See "TAX STATUS" and "CERTIFICATE OWNERS' RISKS" herein.)

The principal of each Series of Certificates is payable on May 1 as set forth on the inside cover hereof and interest thereon is payable on November 1 and May 1 of each year commencing November 1, 2007. So long as DTC is the registered owner of the Certificates, principal and interest are payable to DTC by the Trustee, as paying agent.

The Certificates are subject to special mandatory redemption prior to maturity as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES – Special Mandatory Redemption" herein). In addition, the 2007 Series B Certificates are subject to optional redemption as more fully described herein. See "DESCRIPTION OF THE CERTIFICATES – Optional Redemption of 2007 Series B Certificates" herein). The 2007 Series A Certificates and the 2007 Series C Certificates are not subject to optional redemption.

The Certificates will be issued as fully registered certificates registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. Purchases will be made in book-entry-only form without delivery of physical certificates. The Certificates will be issued in denominations of \$5,000 or integral multiples thereof. The principal and interest portions of the Certificates will be paid directly to DTC by the Trustee. (See "BOOK ENTRY ONLY SYSTEM" herein.) The Certificates are subject to acceleration and redemption prior to maturity as described herein.

Payment of the principal and interest portions of each series of the Certificates when due will be insured by separate financial guaranty insurance policies to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Certificates. (See "THE BOND INSURANCE POLICIES" herein)



THE STATE'S OBLIGATION TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The Certificates are offered when, as and if issued by the State and received by the original purchasers, subject to receipt of the approving legal opinions of Partridge Snow & Hahn LLP, Providence, Rhode Island, as special counsel. Certain other legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by their counsel Moses Afonso Jackvony Ltd., Providence, Rhode Island. Certain matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as disclosure counsel. It is expected that delivery of the Certificates in definitive form will be made to DTC in New York, New York or at the office of its custodial agent on or about June 26, 2007.

Merrill Lynch & Co.

**Banc of America Securities LLC
Janney Montgomery Scott LLC**

**Carolan & Co., a Division of Oppenheimer & Co., Inc.
Sovereign Securities Corporation LLC**

MATURITY SCHEDULE

Maturities, Amounts and Interest Rates

\$23,490,000 Lease Participation Certificates (Information Technology Project – 2007 Series A)

Maturity Date				
<u>May 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP†</u>
2008	\$2,490,000	4.50%	3.74%	76222WAH4
2009	2,880,000	5.00	3.87	76222WAJ0
2010	2,870,000	5.00	3.96	76222WAK7
2011	2,880,000	5.00	4.03	76222WAL5
2012	2,895,000	5.00	4.11	76222WAM3
2013	2,745,000	5.75	4.17	76222WAN1
2014	1,970,000	5.75	4.22	76222WAP6
2015	1,730,000	5.75	4.25	76222WAQ4
2016	1,465,000	5.00	4.29	76222WAR2
2017	1,565,000	5.00	4.34	76222WAS0

\$12,735,000 Lease Participation Certificates (Energy Conservation Project – 2007 Series B)

Maturity Date				
<u>May 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP†</u>
2009	\$ 620,000	4.00%	3.87%	76222WAT8
2010	660,000	4.00	3.96	76222WAU5
2011	700,000	4.25	4.03	76222WAV3
2012	750,000	4.00	4.11	76222WAW1
2013	800,000	4.00	4.17	76222WAX9
2014	850,000	4.125	4.22	76222WAY7
2015	905,000	4.25	4.25	76222WAZ4
2016	965,000	4.25	4.29	76222WBA8
2017	1,025,000	4.25	4.34	76222WBB6
2018	1,090,000	4.375	4.45	76222WBC4
2019	1,170,000	4.50	4.54	76222WBD2
2020	1,245,000	4.50	4.59	76222WBE0
2021	595,000	4.625	4.67	76222WBF7
2022	650,000	4.625	4.70	76222WBG5
2023	710,000	4.625	4.72	76222WBH3

\$9,100,000 Lease Participation Certificates (State Vehicles Project – 2007 Series C)

Maturity Date				
<u>May 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP†</u>
2008	\$2,495,000	4.50%	3.74%	76222WBJ9
2009	2,490,000	5.00	3.87	76222WBK6
2010	2,490,000	5.00	3.96	76222WBL4
2011	410,000	4.00	4.03	76222WBM2
2012	405,000	4.00	4.11	76222WBN0
2013	405,000	4.00	4.17	76222WBP5
2014	405,000	4.00	4.22	76222WBQ3

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

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters of the Certificates 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 Certificates 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 Underwriters of the Certificates 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 information in this Official Statement concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The Underwriters intend to offer the Certificates to the public initially at the offering prices or yields shown on the inside cover page hereof, which prices or yields may change subsequently without any requirement or prior notice. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing such Certificates into investment trusts) at prices lower than the public offering prices shown on the inside cover page 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 OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET, SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

MBIA Insurance Corporation (“MBIA”) does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein or omitted herefrom, other than with respect to the accuracy of the information regarding its Policies and MBIA set forth in “THE BOND INSURANCE POLICIES” and APPENDIX C – “Specimen Financial Guaranty Insurance Policy.”

THE STATE HAS NOT MADE ANY INDEPENDENT INVESTIGATION OF MBIA OR THE BOND INSURANCE POLICIES.

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.

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Plantations dated June 6, 2007

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Ending June 30, 2006

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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	Beverly E. Najarian
Budget Officer	Rosemary Booth Gallogly
State Controller	Lawrence C. Franklin, Jr.
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

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**OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**Relating to
\$23,490,000 Lease Participation Certificates
(Information Technology Project – 2007 Series A)**

**\$12,735,000 Lease Participation Certificates
(Energy Conservation Project – 2007 Series B)**

**\$9,100,000 Lease Participation Certificates
(State Vehicles Project – 2007 Series C)**

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto (the “Official Statement”), is provided to furnish information with respect to the sale and delivery of the \$23,490,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project – 2007 Series A) (the “2007 Series A Certificates”), the \$12,735,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2007 Series B) (the “2007 Series B Certificates”) and the \$9,100,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (State Vehicles Project – 2007 Series C) (the “2007 Series C Certificates”) (the 2007 Series A Certificates, the 2007 Series B Certificates and the 2007 Series C Certificates are collectively referred to herein as the “Certificates.”)

The 2007 Series A Certificates

The 2007 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2007 Series A Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the purchase and rental of certain information technology equipment and systems and related improvements to real property to accommodate such information technology infrastructure (the “2007 Series A Project”). The 2007 Series A Project will be leased to the State pursuant to a Sublease dated as of June 1, 2007 as the same may be amended from time to time (the “2007 Series A Sublease”) by and between the State and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2007 Series A Certificate Owners pursuant to the 2007 Series A Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2007 Series A Declaration of Trust dated as of June 1, 2007 as the same may be amended from time to time (the “2007 Series A Declaration of Trust”), all right to the 2007 Series A Lease Payments under the 2007 Series A Sublease is set aside, granted and assigned to a grantor trust (the “2007 Series A Trust”). Wells Fargo Bank, N.A. will act as trustee (the “2007 Series A Trustee”) under the 2007 Series A Declaration of Trust, Lessor under the 2007 Series A Sublease and lessee under the 2007 Series A Lease (as herein defined).

The 2007 Series A Project is being leased to the Lessor by the State pursuant to a lease (the “2007 Series A Lease”) dated as of June 1, 2007. Assuming annual renewals, the 2007

Series A Lease expires on May 1, 2017. The Trustee's leasehold interest under the 2007 Series A Lease is subleased to the State under the 2007 Series A Sublease, and all right to the 2007 Series A Lease Payments under the 2007 Series A Sublease is set aside, granted and assigned to the 2007 Series A Trust.

The 2007 Series A Certificates will be issued pursuant to the 2007 Series A Declaration of Trust. The proceeds of the sale of the 2007 Series A Certificates will be deposited in the 2007 Series A Trust. The proceeds of the 2007 Series A Certificates in the 2007 Series A Trust will be distributed into a 2007 Series A Project Account and a 2007 Series A Lease Payment Account established by the 2007 Series A Declaration of Trust. Amounts held in the 2007 Series A Project Account will be disbursed by the Trustee to the State from the 2007 Series A Project Account to finance the 2007 Series A Project and to pay related costs of issuance. (See "THE SERIES 2007 A PROJECT" herein.)

Additional 2007 Series A Certificates

The 2007 Series A Sublease and the 2007 Series A Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to acquire additional information technology equipment and systems and related improvements to real property to accommodate such information technology infrastructure to complete the 2007 Series A Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates will be issued on a parity with and will be equally and ratably secured with the Lessee's then outstanding 2007 Series A Certificates under the 2007 Series A Declaration of Trust (See "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST – Amendments and Supplemental Amendments" herein). Any additional certificates will be issued pursuant to supplemental amendments to the 2007 Series A Sublease and the 2007 Series A Declaration of Trust, and such amendments shall grant to the Trustee additional 2007 Series A Lease Payments to be made by the 2007 Series A Lessee. Such an amendment to the 2007 Series A Sublease shall provide for additional 2007 Series A Base Rent (as defined in the 2007 Series A Sublease) sufficient to pay the principal and interest portions of such additional certificates. The maximum principal amount of such additional Certificates which may be issued on a parity with the 2007 Series A Certificates is \$13,510,000. The State expects to issue such additional Certificates in FY2009. See "THE PROJECTS – The IT Projects" herein.

The 2007 Series B Certificates

The 2007 Series B Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2007 Series B Lease Payments") to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" or the "Lessee") for the purchase and rental of certain energy conservation equipment and systems and related improvements to property to accommodate such energy conservation infrastructure (the "2007 Series B Project"). The 2007 Series B Project will be leased to the State pursuant to a Sublease dated as of June 1, 2007 as the same may be amended from time to time (the "2007 Series B Sublease") by and between the State and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2007 Series B Certificate Owners pursuant to the 2007 Series B Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2007 Series B Declaration of Trust dated as of June 1, 2007 as the same may be

amended from time to time (the “2007 Series B Declaration of Trust”), all right to the 2007 Series B Lease Payments under the 2007 Series B Sublease is set aside, granted and assigned to a grantor trust (the “2007 Series B Trust”). Wells Fargo Bank, N.A. will act as trustee (the “2007 Series B Trustee”) under the 2007 Series B Declaration of Trust, Lessor under the 2007 Series B Sublease and lessee under the 2007 Series B Lease (as herein defined).

The 2007 Series B Project is being leased to the Lessor by the State pursuant to a lease (the “2007 Series B Lease”) dated as of June 1, 2007. Assuming annual renewals, the 2007 Series B Lease expires on May 1, 2023. The Trustee’s leasehold interest under the 2007 Series B Lease is subleased to the State under the 2007 Series B Sublease, and all right to the 2007 Series B Lease Payments under the 2007 Series B Sublease is set aside, granted and assigned to the 2007 Series B Trust.

The 2007 Series B Certificates will be issued pursuant to the 2007 Series B Declaration of Trust. The proceeds of the sale of the 2007 Series B Certificates will be deposited in the 2007 Series B Trust. The proceeds of the 2007 Series B Certificates in the 2007 Series B Trust will be distributed into a 2007 Series B Project Account and a 2007 Series B Lease Payment Account established by the 2007 Series B Declaration of Trust. Amounts held in the 2007 Series B Project Account will be disbursed by the Trustee to the State from the 2007 Series B Project Account to finance the 2007 Series B Project and to pay related costs of issuance. (See “THE SERIES 2007 B PROJECT” herein.)

Additional 2007 Series B Certificates

The 2007 Series B Sublease and the 2007 Series B Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to acquire additional energy conservation equipment and systems and related improvements to real property to accommodate such energy conservation infrastructure to complete the 2007 Series B Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates will be issued on a parity with and will be equally and ratably secured with the Lessee’s then outstanding 2007 Series B Certificates under the 2007 Series B Declaration of Trust (See “SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST – Amendments and Supplemental Amendments” herein). Any additional certificates will be issued pursuant to supplemental amendments to the 2007 Series B Sublease and the 2007 Series B Declaration of Trust, and such amendments shall grant to the Trustee additional 2007 Series B Lease Payments to be made by the 2007 Series B Lessee. Such an amendment to the 2007 Series B Sublease shall provide for additional 2007 Series B Base Rent (as defined in the 2007 Series B Sublease) sufficient to pay the principal and interest portions of such additional certificates. The maximum principal amount of such additional Certificates which may be issued on a parity with the 2007 Series B Certificates is \$18,865,000. The State expects to issue such additional Certificates in FY2009. See “THE PROJECTS – The Energy Conservation Projects” herein.

The 2007 Series C Certificates

The 2007 Series C Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2007 Series C Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the purchase and rental of certain vehicles (the “2007 Series C Project”). The 2007 Series C Project will be leased to the State pursuant to a Sublease dated as of June 1, 2007 as the same may be amended from time to time (the “2007 Series C Sublease”) by and between the State and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2007 Series C Certificate Owners pursuant to the 2007 Series C Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2007 Series C Declaration of Trust dated as of June 1, 2007 as the same may be amended from time to time (the “2007 Series C Declaration of Trust”), all right to the 2007 Series C Lease Payments under the 2007 Series C Sublease is set aside, granted and assigned to a grantor trust (the “2007 Series C Trust”). Wells Fargo Bank, N.A. will act as trustee (the “2007 Series C Trustee”) under the 2007 Series C Declaration of Trust, Lessor under the 2007 Series C Sublease and lessee under the 2007 Series C Lease (as herein defined).

The 2007 Series C Project is being leased to the Lessor by the State pursuant to a lease (the “2007 Series C Lease”) dated as of June 1, 2007. Assuming annual renewals, the 2007 Series C Lease expires on May 1, 2014. The Trustee’s leasehold interest under the 2007 Series C Lease is subleased to the State under the 2007 Series C Sublease, and all right to the 2007 Series C Lease Payments under the 2007 Series C Sublease is set aside, granted and assigned to the 2007 Series C Trust.

The 2007 Series C Certificates will be issued pursuant to the 2007 Series C Declaration of Trust. The proceeds of the sale of the 2007 Series C Certificates will be deposited in the 2007 Series C Trust. The proceeds of the 2007 Series C Certificates in the 2007 Series C Trust will be distributed into a 2007 Series C Project Account and a 2007 Series C Lease Payment Account established by the 2007 Series C Declaration of Trust. Amounts held in the 2007 Series C Project Account will be disbursed by the Trustee to the State from the 2007 Series C Project Account to finance the 2007 Series C Project and to pay related costs of issuance. (See “THE SERIES 2007 C PROJECT” herein.)

No Additional 2007 Series C Certificates

The 2007 Series C Sublease and the 2007 Series C Declaration of Trust will not provide for the ability to issue additional certificates secured on a parity with the 2007 Series C Certificates.

SECURITY FOR THE CERTIFICATES

The 2007 Series A Certificates

The 2007 Series A Certificates are payable from (i) 2007 Series A Lease Payments received by the Trustee from the State with respect to the 2007 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2007 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2007 Series A Certificates and investment

earnings on amounts on deposit in the 2007 Series A Trust; and (iii) proceeds from the disposition of the 2007 Series A Project upon the occurrence of an Event of Default under the 2007 Series A Sublease or upon termination of the 2007 Series A Sublease pursuant to non-appropriation of funds by the State. The 2007 Series A Sublease provides for 2007 Series A Lease Payments payable at times and in amounts equal to the principal of and interest on the 2007 Series A Certificates. The 2007 Series A Lease Payments will be made directly to the Trustee.

The State covenants in the 2007 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2007 Series A Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2007 SERIES A LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2007 Series A Sublease provides an initial term commencing June 1, 2007 and terminating June 30, 2007, with annual renewals on July 1 of each year, commencing July 1, 2007, with a final 2007 Series A Sublease term commencing July 1, 2016 and terminating May 1, 2017 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2007 Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2007 Series A Sublease term or any 2007 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2007 Series A Lease Payments due within the next six-month period, the 2007 Series A Sublease shall be deemed renewed with respect to the 2007 Series A Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2007 Series A Lease Payments for such six-month period.

If a 2007 Series A Sublease term terminates without a renewal of the 2007 Series A Sublease for a succeeding 2007 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2007 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2007 Series A Sublease then the 2007 Series A Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2007 Series A Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2007 Series A Sublease, the 2007 Series A Lease Payment which would

have been due on such date if the 2007 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2007 Series A Sublease is reinstated.

In the event the 2007 Series A Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2007 Series A Project. Under such circumstances, the State shall deliver the 2007 Series A Project to the Trustee and the Trustee has the right to lease the 2007 Series A Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2007 Series A Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2007 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2007 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2007 SERIES A CERTIFICATES. THE 2007 SERIES A PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2007 Series B Certificates

The 2007 Series B Certificates are payable from (i) 2007 Series B Lease Payments received by the Trustee from the State with respect to the 2007 Series B Certificates; (ii) certain amounts on deposit from time to time in the 2007 Series B Trust established with respect thereto, including any remaining proceeds of the sale of the 2007 Series B Certificates and investment earnings on amounts on deposit in the 2007 Series B Trust; and (iii) proceeds from the disposition of the 2007 Series B Project upon the occurrence of an Event of Default under the 2007 Series B Sublease or upon termination of the 2007 Series B Sublease pursuant to non-appropriation of funds by the State. The 2007 Series B Sublease provides for 2007 Series B Lease Payments payable at times and in amounts equal to the principal of and interest on the 2007 Series B Certificates. The 2007 Series B Lease Payments will be made directly to the Trustee.

The State covenants in the 2007 Series B Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2007 Series B Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2007 SERIES B LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2007 Series B Sublease provides an initial term commencing June 1, 2007 and terminating June 30, 2007, with annual renewals on July 1 of each year, commencing July 1, 2007, with a final 2007 Series B Sublease term commencing July 1, 2022 and terminating May 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of

renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2007 Series B Lease Payments due during the next succeeding Renewal Period.

If during the initial 2007 Series B Sublease term or any 2007 Series B Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2007 Series B Lease Payments due within the next six-month period, the 2007 Series B Sublease shall be deemed renewed with respect to the 2007 Series B Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2007 Series B Lease Payments for such six-month period.

If a 2007 Series B Sublease term terminates without a renewal of the 2007 Series B Sublease for a succeeding 2007 Series B Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2007 Series B Sublease to be renewed if the appropriation had occurred prior to the termination of the 2007 Series B Sublease then the 2007 Series B Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2007 Series B Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2007 Series B Sublease, the 2007 Series B Lease Payment which would have been due on such date if the 2007 Series B Sublease had not been terminated shall become immediately due and payable on the date if the 2007 Series B Sublease is reinstated.

In the event the 2007 Series B Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2007 Series B Project. Under such circumstances, the State shall deliver the 2007 Series B Project to the Trustee and the Trustee has the right to lease the 2007 Series B Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2007 Series B Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2007 SERIES B PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2007 SERIES B DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2007 SERIES B CERTIFICATES. THE 2007 SERIES B PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2007 Series C Certificates

The 2007 Series C Certificates are payable from (i) 2007 Series C Lease Payments received by the Trustee from the State with respect to the 2007 Series C Certificates; (ii) certain amounts on deposit from time to time in the 2007 Series C Trust established with respect thereto, including any remaining proceeds of the sale of the 2007 Series C Certificates and investment earnings on amounts on deposit in the 2007 Series C Trust; and (iii) proceeds from the disposition of the 2007 Series C Project upon the occurrence of an Event of Default under the 2007 Series C Sublease or upon termination of the 2007 Series C Sublease pursuant to non-appropriation of funds by the State. The 2007 Series C Sublease provides for 2007 Series C Lease Payments payable at times and in amounts equal to the principal of and interest on the

2007 Series C Certificates. The 2007 Series C Lease Payments will be made directly to the Trustee.

The State covenants in the 2007 Series C Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2007 Series C Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2007 SERIES C LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2007 Series C Sublease provides an initial term commencing June 1, 2007 and terminating June 30, 2007, with annual renewals on July 1 of each year, commencing July 1, 2007, with a final 2007 Series C Sublease term commencing July 1, 2013 and terminating May 1, 2014 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2007 Series C Lease Payments due during the next succeeding Renewal Period.

If during the initial 2007 Series C Sublease term or any 2007 Series C Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2007 Series C Lease Payments due within the next six-month period, the 2007 Series C Sublease shall be deemed renewed with respect to the 2007 Series C Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2007 Series C Lease Payments for such six-month period.

If a 2007 Series C Sublease term terminates without a renewal of the 2007 Series C Sublease for a succeeding 2007 Series C Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2007 Series C Sublease to be renewed if the appropriation had occurred prior to the termination of the 2007 Series C Sublease then the 2007 Series C Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2007 Series C Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2007 Series C Sublease, the 2007 Series C Lease Payment which would have been due on such date if the 2007 Series C Sublease had not been terminated shall become immediately due and payable on the date if the 2007 Series C Sublease is reinstated.

In the event the 2007 Series C Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2007

Series C Project. Under such circumstances, the State shall deliver the 2007 Series C Project to the Trustee and the Trustee has the right to lease the 2007 Series C Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2007 Series C Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2007 SERIES C PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2007 SERIES C DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2007 SERIES C CERTIFICATES. THE 2007 SERIES C PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

THE PROJECTS

General

The proceeds from the Certificates will be utilized for the installation of various State systems of information technology (IT), the implementation of several energy conservation projects in the State, and for the purchase of State vehicles.

Across many areas of responsibility spanning several agencies within State government, critical information technology upgrades have become necessary due to obsolescence and resulting inefficiencies. Furthermore, several of the IT projects are designed to modernize technologies used in educational data collection, post-secondary teacher training, and innovative elementary and secondary pedagogical practice. Other IT projects will support the overhaul of the administrative IT infrastructure used by the Judicial Department, and the Division of Taxation. All IT investments described herein are driven by the need for core State agencies to remain technologically current and nimble, thereby enabling the most efficient delivery of government services to the citizens of Rhode Island. The 2007 Series A Certificates will finance the State's IT project described herein.

Energy conservation projects at two State agencies, pursued via Energy Performance Contracts ("EPCs"), will be financed by the proceeds of the 2007 Series B Certificates. An EPC is a contract with an Energy Service Company ("ESCO") to replace or upgrade energy equipment (boilers, heating/air conditioning systems, lighting systems, etc.) that is antiquated, inefficient, and expensive to maintain. The resultant energy cost savings are then guaranteed under the terms of the EPC as sufficient to provide complete cost recovery on the new equipment. The 2007 Series B Certificates will finance the execution of EPCs at various facilities within the Department of Administration and the University of Rhode Island.

The 2007 Series C Certificates will finance the purchase of State vehicles.

The IT Projects

Integrated eLicensing and Consolidation

This IT project creates a new licensing model for the Department of Business Regulation that can be used across multiple agencies and licensing programs, enabling the State to unify interfaces for all licensing, license renewal services, and status checks for the citizens of Rhode Island. Integrating and enhancing the current eLicensing system, the project will proceed in a phased, process-centric approach that will also consist of the development of an image capture system to electronically store all paper licenses and allow for on-line credit card payment for professional licenses, registrations, and permits. Ultimately, over 20 separate licensing and permitting systems spread throughout various state agencies will be consolidated into this shared system. A total of \$1,010,234 has been authorized for this project. The 2007 Series A Certificates will provide \$762,871 of the need, and anticipated financing in FY 2009 will provide the remainder.

Enterprise Infrastructure Upgrades

This IT project provides for the modernization of the State's information technology infrastructure. A portion of the 2007 Series A Certificate proceeds would be used for technologies such as email, desktop computers, and network security. There are five major infrastructure areas that will be improved: cyber-security, wide area network ("WAN") infrastructure, executive branch e-mail platforms and supporting infrastructure, server consolidation, and centralized service desk operations. Cyber security consists of seven security initiatives: security compliance, centralized configuration management, secure access to the State network, intrusion prevention technologies, network access control, e-mail encryption, and authentication and identity management. WAN infrastructure upgrades will provide redundancy at three critical points in the State's internal network, a secondary internet connection, and improve the security and reliability of the network. A standardized executive branch e-mail platform with supporting infrastructure will unify the executive branch's two competing e-mail platforms into a cost-efficient whole, eliminating the need for excess hardware and software. Server consolidation entails the rationalizing and simplifying the use of hardware, software, services, and systems management. Lastly, the implementation of a centralized service desk through the use of HP Open View Service Desk software technology will enable automation of key service support processes. A total of \$3,900,000 has been authorized for this project. The 2007 Series A Certificates will provide \$2,777,991 of the need, and anticipated financing in FY 2009 will provide the remainder.

Taxation Database

The Division of Taxation currently uses several disparate, stand-alone systems to maintain tax-related data that cannot easily communicate with each other. The implementation of a centralized data warehouse will bring this disparate data together in one location for easier access and better reporting and analysis. Such a system will accomplish the following objectives: (1) create an environment where all information used by the Division of Taxation is centralized and standardized with updates to the data from a variety of data sources; (2) provide the end users with an easy-to-use interface to access information and build savable reports and

queries; (3) increase tax revenue by allowing users to find inconsistencies in tax filings and assess additional taxes; and (4) provide tools to allow the division the ability to study various tax policy options and perform revenue trend analysis and reporting. A total of \$2,500,000 has been authorized for this project. The 2007 Series A Certificates will provide 100 percent of the need.

Judicial Department- IT Improvements

This IT project supports the acquisition and maintenance of technological equipment utilized within the Justice Link Program, as well as various technology initiatives throughout the Judiciary. Justice Link is an integrated and comprehensive statewide database designed to enhance the safety of police officers, victims, and the citizens of the State. The system allows for the immediate exchange of critical offender data and criminal records between the State and local agencies comprising the Rhode Island justice system. All J-Link related sites, including the various Courts, Attorney General, Public Defender, Corrections, DCYF, State Police, and municipal police departments, operate on a common system utilizing a relational database management system. The system contains criminal history identification information, data on wanted persons, and stolen automobiles and property. Other technological improvements are also being financed, including upgrades to the Justice Information System and the Judicial Technology Center. A total of \$13,900,000 has been authorized for this project. The 2007 Series A Certificates will provide \$7,276,792 of the need, and anticipated financing in FY 2009 will provide the remainder.

STEM Center/SMART Classrooms

This IT project encompasses the design and construction of a Science and Technology Education in Mathematics (STEM) Center at Rhode Island College (“RIC”) linked to the University of Rhode Island (“URI”) and the Community College of Rhode Island (“CCRI”) and open to all Rhode Island colleges and universities, SMART classrooms at RIC and URI and one on each of CCRI’s campuses, and initial training across institutions to support the use of technology. Projects that would qualify could support teacher professional development, innovative techniques, and teacher preparation programs supporting K-12, post secondary and adult education, and upgrades to existing science laboratories in the State’s public education institutions. A total of \$11,750,000 is being authorized for this project. The 2007 Series A Certificates will provide \$7,391,419 of the need, and anticipated financing in FY 2009 will provide the remainder.

Comprehensive Education Information System (CEIS)

This IT project involves a rather complex integration of both State and district-level data systems within a web-based Enterprise Portal Gateway Website infrastructure. It is an ongoing priority of the Department of Elementary and Secondary Education (“DOE”). A major component of the CEIS, the Centralized Student Information System (CSIS), has been implemented in most school districts. The remaining components of CEIS will be addressed by this project, namely the establishment of the Adult Education Information System, the acquisition of software to support the Data Warehouse, the development of an Assessment and Accountability Gateway, In\$ite financial tracking system upgrades, the design of the Uniform Chart of Accounts, a CEIS State directory, software maintenance, and CEIS training. Once

complete, CEIS will provide DOE with the capability of meeting all data collection requirements under State and federal law (including No Child Left Behind). Moreover, school districts will have access to a multitude of information on student achievement over a variety of dimensions, enabling them to focus resources in critical areas. A total of \$3,000,000 is being authorized for this project. The 2007 Series A Certificates will provide \$2,335,773 of the need, and anticipated financing in FY 2009 will provide the remainder.

Innovative Education

This IT project will support the acquisition of capital assets for innovative education programs in K-12 education. These projects include, but are not necessarily limited to, Project Inner Space and the FIRST Vex™ Challenge. Project Inner Space is a program designed to improve science teaching and learning through advanced “telepresence” technology that allows students to view underwater life via internet access. Produced by a partnership between BIF (Business Innovation Factory) and FIRST (For Inspiration and Recognition of Science and Technology), and administered through the East Bay Educational Collaborative (EBEC), Vex is a school-based instructional program in the field of robotics that culminates in statewide interscholastic competitions. A total of \$445,154 is being authorized for this project. The 2007 Series A Certificates will provide 100 percent of the need.

The Energy Conservation Projects

General Government Facilities

Financing for this energy conservation project will support an Energy Performance Contract (EPC) with an Energy Services Company (ESCO) at the State’s Powers, Chapin and Cannon Buildings located in Providence, Rhode Island. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. Infrastructural upgrades will include boiler and chiller replacements, lighting upgrades with controls, energy management system improvements, building envelope, and water conservation initiatives. The performance contracting program will enable the State to manage its rising energy costs and to improve the overall energy infrastructure. A total of \$6,000,000 has been authorized for this project. The 2007 B Certificates will provide 100 percent of the need.

University of Rhode Island

Financing for this IT project will support an Energy Performance Contract (EPC) URI will enter into with an Energy Services Company (ESCO) to purchase energy-saving improvements in physical plant infrastructure throughout the URI system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. A total of \$18,100,000 has been authorized for this project. The 2007 Series B Certificates will provide \$6,735,000 of the need, and anticipated financing in FY 2009 will provide the remainder.

Rhode Island College

Financing for this IT project will support an Energy Performance Contract (EPC) Rhode Island College will enter into with an Energy Services Company (ESCO) to purchase energy-

saving improvements in physical plant infrastructure throughout the Rhode Island College system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. A total of \$7,500,000 has been authorized for this project. The 2007 Series B Certificates will provide \$0 of the need, and anticipated financing in FY 2009 will provide the remainder.

The State Vehicles Project

This project will allow for the acquisition of State Police Trooper vehicles and associated equipment, heavy equipment and vehicles for the Department of Transportation and replacement vehicles for various other State agencies. Vehicle acquisitions, excluding heavy equipment, are combined into one mass procurement in order to obtain the best pricing possible. The use of a combined lease financing is the most cost-effective way to acquire these vehicles as opposed to individual lease arrangements.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The 2007 Series A Certificates

Sources :		
	Principal Amount of Certificates	\$23,490,000.00
	Original Issue Premium (Net)	<u>1,092,392.35</u>
	Total	\$24,582,392.35
Uses:		
	Project Account Deposit(1)	\$24,332,334.16
	Cost of Issuance(2)	152,000.00
	Underwriters' Discount	<u>98,058.19</u>
	Total	\$24,582,392.35

⁽¹⁾ Exclusive of costs of issuance.

⁽²⁾ Includes bond insurance premium, legal fees, printing costs, etc.

The 2007 Series B Certificates

Sources:		
	Principal Amount of Certificates	\$12,735,000.00
	Original Issue Discount (Net)	<u>(55,903.80)</u>
	Total	\$12,679,096.20
Uses:		
	Project Account Deposit(1)	\$12,038,332.40
	Cost of Issuance(2)	118,000.00
	Underwriters' Discount	<u>66,735.08</u>
	Total	\$12,679,096.20

⁽¹⁾ Includes \$451,631.68 for capitalized interest; exclusive of costs of issuance.

⁽²⁾ Includes bond insurance premium, legal fees, printing costs, etc.

The 2007 Series C Certificates

Sources:		
	Principal Amount of Certificates	\$9,100,000.00
	Original Issue Premium (Net)	<u>122,798.65</u>
	Total	\$9,222,798.65
Uses:		
	Project Account Deposit(1)	\$9,128,195.39
	Cost of Issuance(2)	63,000.00
	Underwriters' Discount	<u>31,603.26</u>
	Total	\$9,222,798.65

⁽¹⁾ Exclusive of costs of issuance.

⁽²⁾ Includes bond insurance premium, legal fees, printing costs, etc.

DESCRIPTION OF THE STATE

See "APPENDIX A -- Information Statement of the State of Rhode Island and Providence Plantations", dated June 6, 2007 for a description of the State, its budgetary process and financial profile.

DESCRIPTION OF THE CERTIFICATES

The 2007 Series A Certificates represent an undivided interest in the 2007 Series A Lease Payments to be made by the State to the Trustee under the 2007 Series A Sublease. The 2007 Series B Certificates represent an undivided interest in the 2007 Series B Lease Payments to be made by the State to the Trustee under the 2007 Series B Sublease. The 2007 Series C Certificates represent an undivided interest in the 2007 Series C Lease Payments to be made by the State to the Trustee under the 2007 Series C Sublease. Certificates will be dated the date of delivery and will be issued in fully registered form without coupons in the denomination of \$5,000 each or any integral multiple thereof. So long as The Depository Trust Company (“DTC”), or its nominee Cede & Co., is the registered owner of the Certificates, all payments with respect thereto will be made directly to such registered holder. Disbursement of such payments to Beneficial Owners (as hereinafter defined) of the Certificates will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

The principal portions of the Certificates are payable on May 1 of each year as set forth on the inside cover page hereof. The interest portions of the Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on November 1 and May 1 of each year commencing November 1, 2007 (the “Interest Payment Dates”) to and including the date of maturity or redemption of the Certificates, whichever is earlier.

Record Date

Payment of the interest portion with respect to any Certificate shall be made on the payment date to the person appearing on the Certificate register as the Owner thereof as of the close of business on the fifteenth day preceding such payment date, such interest to be paid by check or draft mailed to such Owner at such Owner’s address as it appears on the Certificate register or at such other address as such Owner may have filed with the applicable Trustee for that purpose; provided, however, that the applicable Trustee may establish a special record date in connection with the payment of interest in default.

Optional Redemption of 2007 Series B Certificates

The 2007 Series B Certificates maturing on or before May 1, 2017 are not subject to redemption prior to their stated dates of maturity. The 2007 Series B Certificates maturing on and after May 1, 2018 are subject to optional redemption prior to their stated dates of maturity on and after May 1, 2017 as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2007 Series B Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date.

Special Mandatory Redemption

The Certificates are subject to special mandatory redemption in whole or in part at any time at a redemption price equal to the principal amount of the Certificates to be redeemed, plus

interest accrued thereon to the redemption date, from moneys received or recovered by the applicable Trustee from: (i) the reletting of the applicable Project in connection with the enforcement of the applicable Trustee's rights under the applicable Sublease; (ii) the proceeds of the insurance payable with respect to the damage, destruction, theft or other loss of the applicable Project which are not applied to repair or replacement of the applicable Project in accordance with the applicable Sublease; and (iii) any amounts transferred from the Project Account to the Redemption Account under the applicable Declaration of Trust upon completion of the applicable Project.

Selection for Redemption

If less than all of the outstanding Certificates of any maturity of a series of Certificates shall be called for redemption, and for so long as the book-entry only system remains in effect, the Certificates (or portions thereof) to be redeemed shall be selected by lot by DTC in accordance with DTC's operational arrangements as in effect from time to time. If the book-entry only system for the Certificates is no longer in effect, the Certificates (or portions thereof) to be so redeemed shall be by the applicable Trustee by lot or any customary manner of selection.

Notice of Redemption

When redemption of the Certificates is required pursuant to the applicable Declaration of Trust, the applicable Trustee shall give to the registered owners of such Certificates notice of the redemption of the Certificates. Such notice shall specify: (a) the Certificates that are to be redeemed, (b) the date for redemption (the "Redemption Date"), and (c) the place or places where the redemption will be made. Such notice shall further state that on the specified Redemption Date there shall become due and payable upon each Certificate to be redeemed, the principal portion thereof, together with the interest portion accrued to said Redemption Date, and that from and after such Redemption Date, interest thereon shall cease to accrue. Notice shall be given of such redemption not less than thirty (30) days nor more than sixty (60) days prior to the Redemption Date for redemption by mailing first-class, postage prepaid copies thereof to the registered owners of the Certificates to be redeemed. Failure of any such owner to receive such notice (or any defect therein) shall not affect the validity of such redemption.

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 Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully

registered Certificate will be issued for each maturity of each series of the Certificates in the aggregate principal amount of such series and maturity 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 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate (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 Certificates 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 Certificates, except in the event that use of the book entry system for the Certificates is discontinued.

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

accounts such as Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 Certificates at any time by giving reasonable notice to the State and the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, physical 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, physical Certificates will be printed and delivered.

THE ABOVE INFORMATION 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.

NEITHER THE STATE, THE PAYING AGENT, NOR THE TRUSTEE WILL HAVE ANY 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 CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE CERTIFICATE OWNERS OR REGISTERED OWNERS OF THE Certificates SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.

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 Certificates; (ii) the delivery to any Participant, Beneficial Owner of the Certificates or other person, other than DTC, of any notice with respect to the Certificates; (iii) the payment to any Participant, Beneficial Owner of the Certificates or other person, other than DTC of any amount with respect to the principal of, or interest portion on, the Certificates; (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 Certificates are redeemed in part.

SCHEDULED LEASE PAYMENTS

Scheduled 2007 Series A Lease Payments

The following is a schedule of 2007 Series A Lease Payments of Base Rent (as hereinafter defined) due under the 2007 Series A Sublease in each fiscal year, and attributed to the 2007 Series A Certificates, assuming that the 2007 Series A Sublease is continually renewed:

Fiscal Year <u>Ending June 30</u>	Principal Portion <u>of Lease Payment</u>	Interest Portion <u>of Lease Payment</u>	Total Base Rent <u>Lease Payment</u>
2008	\$2,490,000.00	\$1,025,467.19	\$3,515,467.19
2009	2,880,000.00	1,098,337.50	3,978,337.50
2010	2,870,000.00	954,337.50	3,824,337.50
2011	2,880,000.00	810,837.50	3,690,837.50
2012	2,895,000.00	666,837.50	3,561,837.50
2013	2,745,000.00	522,087.50	3,267,087.50
2014	1,970,000.00	364,250.00	2,334,250.00
2015	1,730,000.00	250,975.00	1,980,975.00
2016	1,465,000.00	151,500.00	1,616,500.00
2017	<u>1,565,000.00</u>	<u>78,250.00</u>	<u>1,643,250.00</u>
Total	\$23,490,000.00	\$5,922,879.69	\$29,412,879.69

Scheduled 2007 Series B Lease Payments

The following is a schedule of 2007 Series B Lease Payments of Base Rent (as hereinafter defined) due under the 2007 Series B Sublease in each fiscal year, and attributed to the 2007 Series B Certificates, assuming that the 2007 Series B Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2008	--	\$464,134.82	\$ 464,134.82
2009	\$620,000.00	547,831.28	1,167,831.28
2010	660,000.00	523,031.28	1,183,031.28
2011	700,000.00	496,631.28	1,196,631.28
2012	750,000.00	466,881.28	1,216,881.28
2013	800,000.00	436,881.28	1,236,881.28
2014	850,000.00	404,881.28	1,254,881.28
2015	905,000.00	369,818.76	1,274,818.76
2016	965,000.00	331,356.26	1,296,356.26
2017	1,025,000.00	290,347.76	1,315,343.76
2018	1,090,000.00	246,781.26	1,336,781.26
2019	1,170,000.00	199,093.76	1,369,093.76
2020	1,245,000.00	146,443.76	1,391,443.76
2021	595,000.00	90,418.76	685,418.76
2022	650,000.00	62,900.00	712,900.00
2023	<u>710,000.00</u>	<u>32,837.50</u>	<u>742,837.50</u>
Total	\$12,735,000	\$5,110,266.32	\$17,845,266.32

Scheduled 2007 Series C Lease Payments

The following is a schedule of 2007 Series C Lease Payments of Base Rent (as hereinafter defined) due under the 2007 Series C Sublease in each fiscal year, and attributed to the 2007 Series C Certificates, assuming that the 2007 Series C Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2008	\$2,495,000.00	\$361,149.65	\$2,856,149.65
2009	2,490,000.00	314,000.00	2,804,000.00
2010	2,490,000.00	189,500.00	2,679,500.00
2011	410,000.00	65,000.00	475,000.00
2012	405,000.00	48,600.00	453,000.00
2013	405,000.00	32,400.00	437,400.00
2014	<u>405,000.00</u>	<u>16,200.00</u>	<u>421,200.00</u>
Total	\$9,100,000.00	\$1,026,849.65	\$10,126,849.65

CERTIFICATE OWNERS' RISKS

General

The Certificates do not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation and neither the faith and credit nor the taxing power of the State is pledged to make payments under the applicable Sublease. The State is not required to appropriate funds to make payments required under the applicable Sublease, including without limitation, Base Rent and Additional Rent for any Certificates. If the State fails to appropriate such monies it is unlikely that the applicable Trustee would have sufficient funds, by leasing of the applicable Project or otherwise, to make payment in full of the principal and interest portions of the applicable Certificates.

Each series of Certificates is only payable from amounts to be derived under the terms of the related Sublease, related Lease Payments and amounts on deposit under the related Declaration of Trust. The separate series of Certificates are not cross-collateralized or cross-defaulted in any manner.

Special Mandatory Redemption or Acceleration Prior to Maturity

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. (See "DESCRIPTION OF THE CERTIFICATES – Special Mandatory Redemption," above and "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST" herein.) Certificate Owners may not realize their anticipated yield on investment to maturity because the Certificates may be redeemed or accelerated prior to maturity at par which results in the realization of less than the anticipated yield to maturity.

Value of Projects

The Trustee's leasehold interests in the applicable Project, which constitute part of the security for the applicable Certificates, are leasehold interests in the leased property which are of limited value to anyone other than a state governmental department. Moreover, significant portions of the 2007 Series A Project consist of related IT consulting and training costs and software which do not result in acquired physical assets available to the 2007 Series A Trustee to be re-let in the event of non-appropriation by the State. Additionally, significant portions of the 2007 Series A Project consists of improvements to real estate to accommodate the new IT infrastructure. Such assets incorporated into the real estate would not be available to the Series 2007 A Trustee to re-let in the event of non-appropriation by the State. Significant portions of the 2007 Series B Project also consists of improvements to real estate. Such assets incorporated into the real estate would not be available to the 2007 Series B Trustee to re-let in the event of non-appropriation by the State. The URI portion of the 2007 Series B Project will be located on real property owned by the Board of Governors for Higher Education (the "BOG"), which holds all of its properties in trust for the State.

Risk of Non-Appropriation and Non-Renewal

Each of the Subleases is for a period ending June 30, 2007, and may be renewed for successive annual periods corresponding to the State's fiscal year (or periods less than such fiscal

year). The Lessee shall be deemed to have exercised its right of renewal for each succeeding Renewal Period if at or prior to the expiration of the then current Sublease term, there are lawfully appropriated by the Lessee sufficient funds enabling the payment of all Lease Payments due during the next Fiscal Year with respect to the applicable Sublease. The State is not obligated to renew the applicable Sublease for any Renewal Period unless funds are lawfully appropriated therefor. There can be no assurance that the funds will be lawfully appropriated. (See “SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES - Term and Renewals” herein.)

Certain Matters Relating to Enforceability of the Leases and the Subleases

The obligations of the State under the Leases and the Subleases may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors’ rights generally.

Tax-Exempt Status; Continuing Legal Requirements

As described hereinafter under the caption “TAX STATUS,” the failure of the State or the Trustee to comply with certain legal requirements may cause the interest portion of the Certificates to become subject to federal income taxation retroactive to the date of issuance. None of the Declarations of Trust provide for the payment of any additional interest in the event the interest on the related Certificates becomes includable in gross income for federal income tax purposes.

Tax Law Effects on the Certificates in the Event of Termination of any Sublease

Special Counsel will express no opinion as to the effect that termination of any Sublease may have upon the treatment for federal or State income tax purposes of amounts received by Certificate Owners. There is no assurance that any amounts representing interest received by Certificate Owners after termination of any Sublease will be excludable from gross income under federal or State laws. In view of private letter rulings by the United States Department of the Treasury, Certificate Owners should not assume that payments allocable to the interest portion of the Certificates received from MBIA Insurance Corporation (“MBIA” or the “Insurer”) would be excludable from gross income for federal or state income tax purposes.

Securities Law Effects on the Certificates in the Event of Termination of any Sublease

Special Counsel also expresses no opinion as to the transferability of the Certificates under federal and state securities laws after termination of the related Sublease, and, after such termination, there is no assurance that Certificate Owners would be able to transfer their interests without compliance with federal and state securities laws.

SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES

The following is a summary of certain provisions of the Sublease. The 2007 Series A Sublease, the 2007 Series B Sublease and the 2007 Series C Sublease are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms “Sublease,” “Project,” “Declaration of Trust” and “Lease Payments” should be read as referring to the

documents related to the 2007 Series A Certificates, the Series 2007 Series B Certificates or the 2007 Series C Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

Term and Renewals

The Sublease is effective as of June 1, 2007 and will terminate on June 30, 2007. The Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year. The Sublease may be renewed beyond its termination date for such periods as other amendments to the Sublease may provide.

If any right to renew the Sublease is exercised, the renewed Sublease shall be a new sublease and each such new sublease shall terminate on the termination date of the applicable Renewal Period, unless it terminates at an earlier date, as provided therein.

If during the initial term of the Sublease or any term of the Sublease thereafter, there are lawfully appropriated funds enabling the payment of all Lease Payments due within the next six-month period, the Sublease shall be deemed renewed for such shorter period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current term of the Sublease, there are lawfully appropriated funds enabling the payment of all payments thereunder due within the next such six-month period.

If a term of the Sublease terminates without a renewal for a succeeding Sublease term, and if within sixty (60) days after such date of termination there are lawfully appropriated funds which would have caused the Sublease to be renewed if the appropriation had occurred prior to the termination of the then current term thereof, then, at the option of the Trustee, the Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding term of the Sublease. If there is a Lease Payment date between the date of termination and date of reinstatement of the Sublease, the Lease Payment which would have been due on such date if the Sublease had not been terminated shall become immediately due and payable on the date the Sublease is reinstated. As to a partial appropriation or non-appropriation of funds, see "SECURITY FOR THE CERTIFICATES" and "SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES -- Non-appropriation of Funds" herein.

Rent

The State agrees to pay the payments specified in the Sublease equal to the principal portion of and interest portion on, the Certificates ("Base Rent"). Each payment shall be applied first to payment of the interest portion of the Lease Payment. Interest or income on any moneys in the Base Rent Subaccount of the Lease Payment Account shall be applied as a credit against the balance of the Base Rent. (See "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST -- Establishment and Application of Lease Payment Account," herein.) The State's obligation to pay all or any portion of the Base Rent is subject to the availability of lawful appropriations therefor.

The State agrees to pay the following amounts as additional rent to the Trustee: (i) any and all charges, taxes or payments in lieu thereof (local, state and federal) imposed on the

ownership, leasing, rental, sale, purchase, possession or use of the Project during the Lease Term, (ii) the Rebate Amount, as defined in the Tax Certificate and (iii) amounts required to pay Project costs in excess of the amount payable from the proceeds of sale of the Certificates (collectively, “Additional Rent”).

The State’s obligation to pay all or any portion of the Additional Rent is subject to the availability of lawful appropriations therefor. If funds are not available for payment of all or any part of the Additional Rent during the first fiscal year in which such Additional Rent becomes due and payable, the Trustee shall have the right, but shall not be obligated, to pay such Additional Rent. If the Trustee pays any portion of the Additional Rent which the State is responsible or liable for under the Sublease, the State shall, to the extent funds are lawfully appropriated, pay the Trustee on the first Lease Payment Date in the next succeeding fiscal year an amount equal to the sum of the Additional Rent paid and the costs incurred by the Trustee in making such payment. If the Trustee pays such Additional Rent and is reimbursed for such payment as provided for in the Sublease, the Sublease shall not be deemed terminated. For all fiscal years subsequent to that in which it is determined the State is liable for such Additional Rent, the State shall submit a budget for, and will seek appropriation of, funds for payment of the taxes, charges and payments in lieu thereof. The Trustee shall cooperate with and assist the State in preparing such budget.

The State reasonably believes that funds will be available to make all Lease Payments with respect to the Sublease during each term of the Sublease and covenants that its Department of Administration will do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which the payments under the Sublease may be made including making provisions for such payments in budgets submitted for the purpose of obtaining funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. It is the State’s intent to make payments under the Sublease for all terms of the Sublease if funds are legally available therefor and the State represents that the uses of the Project are essential to its proper, efficient and economic operation.

Non-appropriation of Funds

In the event that the Rhode Island General Assembly has adjourned for the year with the expectation that it will not meet again until the following year and no funds or insufficient funds are lawfully appropriated in any fiscal year enabling the payment of all the payments under the Sublease due for the next succeeding Sublease term (an “Event of Non appropriation”) then the State will immediately notify the Trustee of such occurrence. On the July 1 following the last date on which such funds can be lawfully appropriated in such fiscal year, the Sublease shall terminate without penalty or expense to the State of any kind whatsoever, except as to the portions of Lease Payments herein agreed upon for fiscal years in which sufficient funds have been lawfully appropriated. In the event of an Event of Non appropriation, the State agrees immediately to peaceably surrender possession of the Project to the Trustee on the date of such Event of Non appropriation.

Upon an Event of Non-appropriation of the Sublease, the Declaration of Trust provides that the Trustee, upon written notification of such non-appropriation from the State with respect

to the Sublease, shall within sixty-five (65) days transfer to the Redemption Account (as hereinafter defined) all amounts in the Project Account and the Lease Payment Account (as such accounts are hereinafter defined), unless such Event of Non-appropriation is cured or waived during the first sixty (60) days of the aforesaid sixty-five (65) day period or unless the Insurer otherwise directs.

Title

The State will continue to possess title to the Project. Title to the Project will be freed of such leasehold interests, upon the complete payment and performance by the State of all of its obligations during the Sublease term.

Insurance

The Lessee is required at all times during the term of the Sublease to maintain comprehensive property and public liability insurance or self-insurance consistent with prevailing standards for comparable public bodies of similar size in the region. The proceeds of insurance (other than self-insurance) recovered on portions of the Project lost, stolen, destroyed or damaged shall be applied to the repair or replacement of the Project. In the event of self-insurance, proceeds of self-insurance shall be applied to repair or replace the Project to the extent proceeds are lawfully appropriated therefore.

Rent Prepayment Option for 2007 Series B Certificates

On and after May 1, 2017 pursuant to the 2007 Series B Sublease, upon sixty (60) days prior written notice from the State to the 2007 Series B Trustee, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time, or both, could become an Event of Default, the State will have the right to prepay payments under the 2007 Series B Sublease, in whole or in part at any time by paying to the 2007 Series B Trustee, on such date, the payments then due under the 2007 Series B Sublease, together with the Rent Prepayment Price being paid on such date along with instructions to the 2007 Series B Trustee as to how such Rent Prepayment Price shall be applied by the 2007 Series B Trustee in its capacity as 2007 Series B Trustee for the Owners of 2007 Series B Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment Price, the 2007 Series B Trustee will transfer any and all of its right, title and interest in the 2007 Series B Project, as is, to the State, without warranty, express or implied, except that the 2007 Series B Trustee will warrant to the State that the Project is free and clear of any liens created by the 2007 Series B Trustee.

Events of Default

The term "Event of Default", as used in the Sublease and herein, means the occurrence of any one or more of the following events:

(a) The State fails to make any Lease Payment as it becomes due in accordance with the terms of the Sublease; or

(b) The State fails to perform or observe any other covenant, condition, or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof by the Trustee.

Remedies

Upon the occurrence of an Event of Default under the Sublease, and as long as such Event of Default is continuing, the Trustee may, at its option, having no obligation to do so under the Sublease or the Declaration of Trust, exercise any one or more of the following remedies:

(a) By written notice to the State, request the State to (and the State agrees that it will to the fullest possible extent), relinquish possession of all of the equipment and related software or vehicles constituting the Project, as applicable, and deliver the same to the Trustee;

(b) By written notice to the State, declare an amount equal to all amounts then due under the Sublease and all remaining payments due under the Sublease during the remaining term of the Sublease to be immediately due and payable whereupon the same shall become immediately due and payable;

(c) Lease the relinquished property comprising the Project for the account of the State who shall remain liable for all Lease Payments due during the Sublease term and other payments due to the effective date of such leasing and for the difference between the rental and other amounts paid by the State pursuant to such lease and the amounts payable by the State thereunder; and

(d) Exercise any other right, remedy or privilege which may be available to it under applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce the terms of the Sublease or to recover damages for the breach of the Sublease or to rescind the Sublease as to the Project.

The Trustee shall be under no obligation to pursue any remedies in the Sublease if in the opinion of the Trustee such action would result in a risk of financial liability for the Trustee and the Trustee has not received indemnity from Certificate Owners that is satisfactory to the Trustee in Trustee's sole judgment.

In addition, the State will remain liable for all covenants and obligations under the Sublease and for all legal fees and other costs and expenses, including court costs, when and if deemed appropriate and awarded by a court of competent jurisdiction, incurred by the Trustee with respect to the enforcement of any of the remedies listed above or any other remedy available to the Trustee under the Sublease, when it is finally adjudicated by a court of competent jurisdiction that the State is in default of the Sublease or any amendment thereto.

The Insurer

For so long as the Insurer's applicable policy shall be in full force and effect and provided the Insurer shall have not defaulted under its obligation under such policy, the written consent of the Insurer is necessary to exercise or waive any remedies under the Sublease.

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

The following is a summary of certain provisions of the Declaration of Trust. The 2007 Series A Declaration of Trust, the 2007 Series B Declaration of Trust, and the 2007 Series C Declaration of Trust are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust," and "Lease Payments" should be read as referring to the documents relating to the 2007 Series A Certificates, the 2007 Series B Certificates and the 2007 Series C Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

General

The Declaration of Trust establishes a Trust for the benefit of the Owners of the Certificates issued thereunder, to secure the payment of the principal portions of, and interest portions on, the Certificates issued pursuant thereto and secure the performance and observance of all covenants and conditions under the Declaration of Trust and the Certificates and establishes the terms and conditions subject to which Certificates are to be issued, executed, held, secured and enforced.

The Lessor, concurrently with the execution and delivery of the Declaration of Trust grants and assigns to the Trustee all of the Lessor's right, title and interest in, to and under the Sublease.

Certificates

Simultaneously with the receipt of the Sublease relating to the issuance of the Certificates and the receipt of the proceeds thereof, the Trustee shall execute and deliver the Certificates in the aggregate authorized principal amounts evidencing proportionate interests in the Lease Payments to be paid by the State under the Sublease. The Trustee may, upon written direction from the State, from time to time while the Certificates are outstanding, execute and deliver additional series of Certificates payable from payments under the Sublease.

Transfer of Certificates

Each Certificate shall be transferable only upon the Certificate register, which shall be kept for that purpose at the principal office of the Trustee, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon registration of the transfer and the surrender of any such Certificate, the Trustee shall provide, in the name of the transferee, a new Certificate or Certificates of the same series and of the same aggregate principal amount as the surrendered Certificates.

The Trustee shall deem and treat the person in whose name any outstanding Certificate shall be registered upon the Certificate register as the absolute owner of such Certificate, whether such Certificate shall be overdue or not, for the purpose of receiving payments of, or on account of, the payment of the principal portion of, and interest portion on, such Certificate and for all other purposes, and all such payments so made to any such owner or upon his or her order shall

be valid and effectual to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid, and the Trustee shall not be affected by any notice to the contrary.

Redemption

The Certificates are subject to special mandatory redemption prior to maturity as a whole or in part in the amounts, on the dates and at the prices as more fully described above under “DESCRIPTION OF THE CERTIFICATES – *Special Mandatory Redemption*”. The 2007 Series B Certificates are also subject to optional description as described in “DESCRIPTION OF CERTIFICATE – *Optional Redemption of 2007 Series B Certificates*”.

Trust Fund

There is established with the Trustee a special trust fund pursuant to the Declaration of Trust (the “Trust Fund”). The Trustee shall keep the Trust Fund separate and apart from all other funds and moneys held by it. Within the Trust Fund, there are or will be established the Project Account, the Lease Payment Account, the Rebate Account, and the Redemption Account.

Establishment and Application of Project Account

Within the Trust Fund, there will be established a special account for the Project, which shall be referred to as the “Project Account”.

All disbursements from the Project Account shall be made by the Trustee upon receipt of a written requisition requesting disbursement, and approved by an Authorized Officer of the State.

Any moneys remaining in the Project Account after the completion of the Project shall be transferred at the direction of the State, to the Lease Payment Account or the Redemption Account.

Establishment and Application of Lease Payment Account

Within the Trust Fund, there is established a separate account for the deposit of Lease Payments, which shall be referred to as the “Lease Payment Account”. Within the Lease Payment Account there will be established subaccounts designated and referred to as the “Base Rent Subaccount” and the “Additional Rent Subaccount”. Such account and subaccounts shall be maintained by the Trustee until the Lease Payments are paid in full pursuant to the terms of the Sublease.

Payments under the Sublease constituting Base Rent, interest or income earned on other accounts are transferred to the Base Rent Subaccount. Proceeds of insurance and all other moneys derived from the lease, sublease or other use of the Project and such other amounts as may be paid to the Trustee shall be immediately deposited by the Trustee in the Base Rent Subaccount. Lease Payments constituting Additional Rent shall be immediately deposited by the Trustee in the Additional Rent Subaccount.

The Trustee shall withdraw first from the Base Rent Subaccount and second from the Additional Rent Subaccount, on each Payment Date an amount equal to the amount of any interest or principal portion of the Certificates then due with respect to the Certificates on such interest, sinking fund installment or principal payment date, and shall cause the same to be applied to the payment of the principal and interest portions due with respect to the Certificates.

The Trustee shall withdraw from the Additional Rent Subaccount, as necessary, an amount equal to the amount required to pay when due the charges, taxes, fees, Project costs and other payments for which Additional Rents are paid, or to reimburse the Trustee for the same, as applicable, upon receipt of a written requisition requesting disbursement approved by an authorized officer of the Lessee, including evidence of the incurrence of such charges, taxes, fees and other payments and instructing as to where such amounts shall be sent.

If the principal and interest portions of all of the Certificates issued pursuant to the Declaration of Trust shall have been paid and all expenses of the Trustee have been paid, any balance remaining in the Lease Payment Account shall be paid to the State.

Establishment and Application of Rebate Account

Within the Trust Fund, there will be established a separate account for the payment of rebate to the federal government in connection with the requirements of the Internal Revenue Code of 1986, as amended, which shall be referred to as the "Rebate Account".

There shall be paid into the Rebate Account for the Certificates such amounts at such times as are required to be paid by the State pursuant to a tax certificate executed and delivered by the State in connection with the issuance of the Certificates (the "Tax Certificate") to maintain the exclusion of interest thereon from federal income taxation on gross income. The Trustee shall pay to the United States out of amounts on deposit in the Rebate Account the amounts required to be rebated to the United States in accordance with the Tax Certificate.

Establishment and Application of Redemption Account

Within the Trust Fund, there will be established a separate account for the redemption of the Certificates which shall be referred to as the "Redemption Account".

Moneys shall be deposited in the Redemption Account in the event of a special mandatory redemption or upon acceleration.

Moneys in the Redemption Account shall be used solely to redeem the Certificates or to pay the principal of, and interest portion on, the Certificates declared due and payable by the Trustee after an Event of Default under the Declaration of Trust, and any balance remaining in the Redemption Account shall be paid to the State and such Redemption Account shall be closed.

Deposit and Investment of Moneys in Funds

All moneys held by the Trustee in any of the funds or accounts established pursuant to the Declaration of Trust shall be invested in Permitted Investments at the Lessee's direction, having due regard for the protection of the interests of the Owners of the Certificates in such

moneys and for the dates upon which such moneys will be required by the Trustee for the uses and purposes specified in the Declaration of the Trust. The term “Permitted Investments” includes the following:

(a) Direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself).

1. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
2. Federal Housing Administration Debentures (FHA)
3. General Services Administration
Participation Certificates
4. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage backed bonds
GNMA - guaranteed pass through obligations (participation Certificates)
5. U.S. Maritime Administration
Guaranteed Title XI financing
6. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself).

1. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)

2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates (Mortgage-backed securities)
Senior debt obligations
3. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2, including, without limitation, the Trustee’s Money Market Mutual Funds or any other mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one year or less maturity. Such Certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated “A 1+” or better by S&P and “Prime 1” by Moody’s. The collateral must be held by a third party and the Certificate Owners must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).

(g) Investment Agreements, including guaranteed investment contracts (GICs) acceptable to the Insurer.

(h) Commercial paper rated “Prime 1” by Moody’s and “A 1+” or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime 1” or “A3” or better by Moody’s and “A 1+” by S&P.

(k) Repurchase Agreements (“Repos”) that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date; and

(l) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre refunded municipals to satisfy this condition.

Events of Default

An Event of Default under the Declaration of Trust or any supplemental amendment is deemed to be the occurrence of any one or more of the following:

(a) The State fails to make the Lease Payment as it becomes due in accordance with the terms of the Sublease and any such failure continues for five (5) days after the due date thereof; or

(b) The State fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof from the Trustee; or

(c) The Sublease terminates under its terms pursuant to non-appropriation by the State and is not reinstated within sixty (60) days of termination as provided in the Sublease.

In the case of an Event of Default the Trustee shall, within five (5) days after such event or notice, give written notice thereof by first class, postage prepaid mail to the Insurer and the Owners of all Certificates then outstanding at the address shown on the Certificate register maintained by the Trustee.

Acceleration

Upon the occurrence of any Event of Default involving non-appropriation or the State’s failure to otherwise make a scheduled payment under the Sublease, the Trustee shall, and upon the occurrence of any Event of Default involving the State’s failure to observe or perform any other covenant, condition or agreement under the Sublease, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall by notice in writing delivered to the State, declare the principal portions of all Certificates then Outstanding and the accrued interest portions thereof immediately due and payable and such principal and interest portions shall thereupon become and be immediately due and payable and shall declare an amount equal to all remaining Lease

Payments and other amounts due during the Sublease term to be immediately due and payable. Any acceleration shall require the written consent of the Insurer.

The foregoing paragraph is subject, however, to the condition that if, at any time after the principal portions of, and accrued interest portions of the Certificates shall have been so declared due and payable and before a Project has been subleased, all sums payable in connection therewith, except the principal portions of the Certificates which have not reached their maturity dates, shall have been duly paid and all existing defaults shall have been made good, then and in every such case such payment shall constitute a waiver of such default and its consequences and an automatic rescission and annulment of such declaration but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

Remedies

Upon the occurrence of an Event of Default, the Trustee may exercise, as an alternative or in addition to any other remedy under the Declaration of Trust, any remedy available to the Trustee under the Sublease.

If all or a portion of the Project has been leased or subleased pursuant to the Sublease and if payments with respect to such lease or sublease will be received by the Trustee after the date on which the Certificates are due and payable pursuant to the Declaration of Trust (i) such payments shall be deposited in the Lease Payment Account and (ii) the Owners of a majority of the aggregate principal amount of the Certificates then Outstanding shall determine whether the Trustee's interest in the lease or sublease will be liquidated prior to the date on which the Certificates are due and payable or whether the Trustee shall retain its interest in the lease or sublease and distribute the payments received pursuant thereto on the Payment Dates in the proportion the unamortized principal of each Outstanding Certificate bears to the unamortized principal of all Outstanding Certificates.

If an Event of Default shall have occurred, and if requested so to do by the Owners of a majority of the aggregate principal amount of Certificates then Outstanding by an instrument or instruments in writing and executed and delivered to the Trustee, and indemnified by such Owners to the satisfaction of the Trustee, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Declaration of Trust as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of Certificates.

No remedy conferred on the Trustee is intended to be exclusive of any other remedy but each and every remedy given to the Trustee shall be in addition to any other remedy given to the Trustee.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Rights of Certificate Owners to Direct Proceedings

The Owners of a majority in aggregate principal amount of the Certificates then outstanding under the Declaration of Trust shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Declaration of Trust and any supplemental amendment, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Declaration of Trust; and further provided that the Trustee be provided with indemnification satisfactory to the Trustee.

Rights of Insurer to Direct Proceedings

Notwithstanding anything in the Declaration of Trust to the contrary, for so long as the Insurer's applicable policy issued in connection with the Certificates issued thereunder shall be in full force and effect and the Insurer shall not have defaulted on its obligations under such policy, the written consent of the Insurer shall be necessary to exercise or waive any remedies thereunder, including acceleration, and the Insurer shall have the right to direct all remedies upon the occurrence of an Event of Default.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of Certificates under the Declaration of Trust and any supplemental amendment thereto, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Project and of the rentals, revenues and other income, charges and moneys therefrom, pending such proceedings, with such power as the court making such appointment shall confer.

Rights and Remedies of Certificate Owners

No Owner of any Certificate shall have any right to institute any suit, action or proceeding for the enforcement of the Declaration of Trust, for the execution of any trust thereof or any other remedy thereunder, unless (i) an Event of Default has occurred; (ii) the Owners of a majority of the aggregate principal amount of the Certificates then Outstanding thereunder shall have made written request to the Trustee and shall have offered the Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (iii) such Owners have offered the Trustee indemnification in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request; and (iv) the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names. Such request and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Declaration of Trust, and to the initiation of any action or cause of action for the enforcement of the Declaration of Trust; provided, that the Trustee may not, as a condition precedent to the execution of the powers and trusts thereunder, request indemnification for liability arising out of the Trustee's grossly negligent action or willful misconduct or grossly negligent failure to act. It

being understood and intended that no one or more of the Owners of the Certificates shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Declaration of Trust by its, his, her or their action or to enforce any right thereunder except in the manner therein provided and that proceedings shall be instituted, had and maintained in the manner herein provided and for the ratable benefit of the Owners of all Certificates then Outstanding thereunder. Nothing in the Declaration of Trust shall, however, affect or impair the right of any Certificate Owner to enforce the payment of the principal and interest portions of any Certificate at and after the maturity thereof, or the obligation of the Trustee to pay the principal portions of, and interest portions on, the Certificates to the respective Owners thereof at the time, place, from the source and in the manner provided in said Certificates.

Rights of the Insurer

For so long as the Insurer's applicable policy shall be in full force and effect and provided that the Insurer shall not have defaulted on its obligations under such policy, the Insurer shall be deemed to be the sole Owner of the Certificates, notwithstanding anything in the Declaration of Trust to the contrary, the written consent of the Insurer shall be necessary to exercise or waive any remedies thereunder, and the Insurer shall have the right to direct all remedies upon the occurrence of an Event of Default. In addition, so long as the Insurer's applicable policy issued in connection with the Certificates shall be in full force and effect and the Insurer shall not have defaulted on its obligations under such policy, the Insurer shall be deemed to be the sole owner of the Certificates for all purposes of amending the Declaration of Trust other than for purposes which require the consent of individual Owners of Certificates affected thereby.

Waivers of Events of Default

Except as otherwise provided under "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION OF TRUST – Acceleration," the Trustee may in its discretion waive any Event of Default under the Declaration of Trust and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the Owners of one-half in aggregate principal amount of all the Certificates then outstanding thereunder; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal portions of any outstanding Certificates thereunder at the date of maturity specified therein or (b) any default in the payment when due of the interest portions of any such Certificates unless prior to such waiver or rescission, all arrears of interest portions, or all arrears of payments of principal portions and sinking fund installments when due, as the case may be, and all expenses of the Trustee, in connection with such default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the State, the Trustee and the Certificate Owners shall be restored to their former positions and rights thereunder and under the Sublease, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Notwithstanding the foregoing, for so long as the Insurer's applicable policy shall be in full force and effect and provided that the Insurer shall have not defaulted in its obligations under such policy, only the consent of the Insurer shall be required for any waiver or recession.

Amendments and Supplemental Amendments

The Trustee may, without the consent of, or notice to, any Certificate Owner, amend the Declaration of Trust or other instruments evidencing the existence of a lien provided such amendment is not inconsistent with the terms and provisions thereof for any one of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Declaration of Trust;

(b) To grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee or either of them;

(c) To subject to the lien and pledge of the Declaration of Trust, additional revenues;

(d) To add to the covenants and agreements of the Trustee contained in the Declaration of Trust other covenants and agreements thereafter to be observed for the protection of the Certificate Owners, or to surrender or limit any right, power or authority herein reserved to or conferred upon the Trustee;

(e) To evidence any succession within the Trustee and the assumption by such successors of the requirements, covenants and agreements of the Trustee and in the Lease, the Sublease and the Certificates issued under the Declaration of Trust; and

(f) In the case of the 2007 Series A Declaration of Trust and the 2007 Series B Declaration of Trust, to issue additional certificates pursuant to the applicable Declaration of Trust.

Exclusive of the aforementioned types of amendments and subject to the terms and provisions contained in the Declaration of Trust, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, from time to time, anything contained in the Declaration of Trust to the contrary notwithstanding, to consent to and approve the execution by the Trustee of such other amendments, as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in a Declaration of Trust or in any amendment thereto, provided, however, that nothing therein shall permit, or be construed as permitting: (i) an extension of the maturity of the principal or interest portion on any Certificate issued thereunder, or a reduction in the principal amount of any Certificate or the rate of interest thereon, without the consent of each Certificate Owner so affected or (ii) a privilege or priority of any one Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for

consent to such amendment, without the consent of the Owners of all of the Certificates then Outstanding.

The Trustee without the consent of the Owners of the Certificates may consent to any amendment to the Sublease which in its judgment is not to the prejudice of the Trustee or the Owners of the Certificates. Except as permitted under the 2007 Series A Declaration of Trust and the 2007 Series B Declaration of Trust with respect to the issuance of additional Certificates, the Trustee shall not consent to any amendment, change or modification of the Sublease which would change the amount of the Lease Payments required to be paid under the Sublease, or the Lease Payment Dates under the Sublease unless the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding shall approve the Trustee's consent to such amendment; provided, however that no amendment to the Sublease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal portion of or the interest portion on any Certificate issued in connection therewith, or a reduction in the principal amount of any Certificate or the rate of interest thereon, unless each Certificate Owner so affected consents; or (ii) in a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, unless the Owners of all of the Certificates then Outstanding under the Declaration of Trust so consent.

If, at any time, the Trustee shall propose an amendment requiring the approval of the Certificate Owners, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, notify the Owners of all Outstanding Certificates of the proposed amendment in the manner provided in the Declaration of Trust. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the Principal Office of the Trustee for inspection by all Certificate Owners. If, within sixty (60) days after mailing of the notice or such longer period not to exceed one hundred twenty (120) days as the Trustee may prescribe, the requisite number of Owners of the Outstanding Certificates at the time notice of such amendment is given, shall have consented to and approved the execution thereof as therein provided, no Owner of any Certificate shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such amendment, the Declaration of Trust and/or the Sublease, as the case may be, shall be and is deemed to be modified and amended in accordance with such amendment. Any amendment to the Declaration of Trust requiring consent of the Certificate Owners may not be made without first obtaining consent of the Insurer.

Defeasance of 2007 Series B Certificates

If and when any 2007 Series B Certificates issued under the 2007 Series B Declaration of Trust shall become due and payable in accordance with their terms, and the whole amount of principal portions, premium, if any, and interest portions so due and payable upon all of such 2007 Series B Certificates shall be paid, or provision shall have been made for the payment of the same to provide for payment of the principal portions of, premium, if any, and interest portions of, and all administrative and other expenses associated with such 2007 Series B Certificates shall have been paid or provided for, then and in that case, the right, title and interest

of the 2007 Series B Trustee under the 2007 Series B Declaration of Trust and the applicable supplemental amendment relating to such 2007 Series B Certificates shall thereupon cease, terminate and become void, and the 2007 Series B Trustee shall assign and transfer to the State all property (in excess of the amounts required for the foregoing) then held by the 2007 Series B Trustee as to such series of 2007 Series B Certificates and shall execute such documents as may be reasonably required by the State in this regard.

LITIGATION

In the opinion of the State's Attorney General, there is no litigation pending or, to the knowledge of such officer, threatened, affecting the validity of the Sublease, the Lease, the Declaration of Trust, or the Certificates.

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.

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Sublease and the Lease and will render an opinion to the effect that the State possesses the authority necessary to enter into the Sublease and the Lease and that the Sublease and the Lease constitute legal, valid, binding and enforceable obligations of the State subject to the limitations set forth therein. Certain legal matters will be passed upon for the State by Partridge Snow & Hahn LLP, Providence, Rhode Island, special counsel to the State, and by Adler Pollock & Sheehan P.C., Providence, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Moses Afonso Jackvony Ltd., Providence, Rhode Island.

TAX STATUS

Partridge Snow & Hahn LLP is of the opinion that, under existing law and assuming compliance with certain arbitrage rebate and other tax requirements referred to in this section, the portion of Lease Payments designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Such portion of the Lease Payments distributable as Interest is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes. (See "APPENDIX B - Proposed Forms of Legal Opinion"). In connection with the foregoing, prospective Certificate Owners should be aware that the statutory framework on which the exemption from Rhode Island personal income taxes described above is based is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W.3d 557 (Ky. App. 2006), cert. granted, 550 U.S. ____ (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause

of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Rhode Island judicial decisions or statutory enactments designed to ensure the constitutionality of Rhode Island tax law could, among other alternatives, adversely affect the Rhode Island tax exemption of outstanding municipal bonds, including the Certificates, to the extent constitutionally permissible, or result in the exemption from Rhode Island income tax of interest on non-Rhode Island municipal bonds, either of which could adversely affect the market price of the Certificates.

Partridge Snow & Hahn LLP is also of the opinion that the portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings.

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. The State will covenant to take all lawful action necessary under the Code to ensure that the portion of the Lease Payments designated as Interest on the Certificates will remain excludable from gross income for federal income tax purposes and to refrain from taking any action that would cause such portion to become includable in such gross income. The opinion of Partridge Snow & Hahn LLP is subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that the portion of the Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. Partridge Snow & Hahn LLP expresses no opinion regarding other federal tax consequences arising with respect to the Certificates.

Original Issue Discount

Certain of the Certificates (the "Discount Certificates") may be offered and sold to the public at an original issue discount (the "OID"). The OID is the excess of the stated redemption price at maturity (the face amount) over the "issue price" of such Certificates. The issue price of a Discount Certificate is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of Underwriters or wholesalers) at which a substantial amount of the Discount Certificates of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the Owner of a Discount Certificate over the period to maturity at a constant yield as described in Income Tax Regulation Section 1.1272-1(b). With respect to an initial purchaser of a Discount Certificate at its issue price, the portion of OID that accrues during the period the purchaser owns the Discount Certificate (i) is interest excludable from the purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as other interest on the

Certificates and (ii) is added to the purchaser's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Certificate. Owners of Discount Certificates should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Certificate and as to other federal tax consequences and any state or local tax aspects of owning Discount Certificates.

Premium

Certain of the Certificates (the "Premium Certificates") may be offered and sold to the public at a premium. Premium is amortized over the remaining term of the Premium Certificate for federal income tax purposes. The purchaser of a Premium Certificate is required to decrease his adjusted basis in the Premium Certificate by the amount of amortizable bond premium attributable to each taxable year during the amortization period. The amount of amortizable bond premium attributable to each taxable year is determined actuarially at a constant interest rate. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Certificates should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Certificates and with respect to the state and local consequences of owning and disposing of Premium Certificates.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, corporations subject to the foreign branch profits tax, Subchapter S corporations, financial institutions, certain insurance companies, individual recipients of Social Security or railroad retirement benefits, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. In addition, taxpayers disposing of property, the acquisition of which is financed in whole or in part after 1990 with federally-subsidized indebtedness (qualified mortgage bonds or mortgage credit Certificates) must take receipts or accruals of interest on the Certificates into account in determining what portion, if any, of the federally-subsidized amount is subject to recapture. Prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any such collateral consequences.

PARTRIDGE SNOW & HAHN LLP EXPRESSES NO OPINION AS TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES OF THE PORTION OF THE LEASE PAYMENTS DISTRIBUTABLE TO THE CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE STATE OF THE LEASE PAYMENTS.

SPECIAL COUNSEL HAS SPECIFICALLY DISCLAIMED ANY OPINION AS TO THE EFFECT THAT TERMINATION OF THE SUBLEASE MAY HAVE UPON THE TREATMENT FOR FEDERAL OR STATE INCOME TAX PURPOSES OF AMOUNTS RECEIVED BY CERTIFICATE OWNERS. THERE IS NO ASSURANCE THAT ANY AMOUNTS REPRESENTING INTEREST RECEIVED BY CERTIFICATE OWNERS AFTER TERMINATION OF THE SUBLEASE WILL BE EXCLUDABLE FROM GROSS INCOME UNDER FEDERAL OR STATE LAWS.

The foregoing is a general discussion of the anticipated material federal and state income tax consequences relating to the ownership of the Certificates. The discussion does not purport to address all federal and state income tax consequences that may be applicable to particular categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or different interpretation, and any such change or interpretation could apply retroactively. Prospective investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them in connection with the purchase, ownership and disposition of Certificates.

UNDERWRITING

The Certificates are being purchased by Merrill Lynch & Co., as representative of the Underwriters listed on the cover page hereof (the "Underwriters"). The aggregate offering price of the Series A Certificates to the public is \$24,582,392.35 and the Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates at a purchase price of \$24,484,334.16 and to reoffer the Series A Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series B Certificates to the public is \$12,679,096.20 and the Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates at a purchase price of \$12,612,361.12 and to reoffer the Series B Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series C Certificates to the public is \$9,222,798.65 and the Underwriters have agreed, subject to certain conditions, to purchase the Series C Certificates at a purchase price of \$9,191,195.39 and to reoffer the Series C Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts and others) at prices lower than the public offering prices stated on the inside cover page hereof. The purchase contract provides that the Underwriters will purchase all the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract.

FINANCIAL ADVISOR

The State has retained First Southwest Company (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates, and receipt by the State of payment therefor.

THE BOND INSURANCE POLICIES

The MBIA Insurance Corporation Insurance Policies

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than

with respect to the accuracy of the information regarding the Policies and MBIA set forth under the heading “The Bond Insurance Policies”. Additionally, MBIA makes no representation regarding the Certificates or the advisability of investing in the Certificates.

The MBIA Policies unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the State to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policies shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

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

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

MBIA Insurance Corporation

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

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

Regulation

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

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

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

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

Fitch Ratings rates the financial strength of MBIA “AAA.”

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

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

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (audited), total liabilities of \$6.9 billion (audited), and total capital and surplus of \$4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of \$11.2 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007, and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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

Incorporation of Certain Documents by Reference

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

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

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C. (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

RATINGS

The Certificates have been assigned ratings by Moody's Investor Service ("Moody's"), Standard and Poor's Rating Services, a division of the McGraw-Hill Companies Inc. ("S&P"), and Fitch Ratings ("Fitch") (collectively, the "Rating Agencies"). The ratings assigned by Moody's, S&P and Fitch are Aaa, AAA and AAA respectively, with the understanding that upon delivery of the Certificates, policies insuring the payment when due of principal of and interest on the Certificates will be issued by MBIA.

Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from the respective Rating Agencies furnishing the same. There is no assurance that the ratings given the Certificates 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 rating may have an adverse effect on the market price of the Certificates.

CONTINUING DISCLOSURE

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

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

1. The State will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State ("SID"), if any: (a) on or before the end of each calendar year, commencing December 31, 2007, financial information and operating data relating to the State for the preceding fiscal year

of the type presented in Appendix A of the Official Statement prepared in connection with the Certificates regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

2. The State will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board and the SID, if any, notice of the occurrence of any of the following events with respect to the Certificates, if material: (a) principal and interest portion 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 Certificates; (g) modifications to rights of beneficial owners of the Certificates; (h) Certificate calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Certificates; or (k) rating changes to the Certificates by any nationally recognized credit agency which has rated the Certificates at the request of the State. The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

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

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Certificates, (a) to comply with or conform to the provisions of the Rule or any amendments to the Rule or authoritative interpretations thereto by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the owners of the Certificates, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) and (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Certificates, after taking into account any amendments or authoritative interpretations of the Rule, as well as any changes in circumstances, and (ii) the

amendment does not materially impair the interests of the owners of the Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by a vote or consent of owners of a majority in outstanding principal amount of the Certificates affected thereby at or prior to the time of such amendment. The Continuing Disclosure Certificate will also state that to the extent the Rule no longer requires issuers such as the State to provide continuing disclosure with respect to securities such as the Certificates, the State's obligation to provide continuing disclosure shall terminate immediately.

The purpose of the State's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the Owners of the Certificates 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 Certificates, any registered owner or beneficial owner of the Certificates, any municipal securities broker or dealer, any potential purchaser of the Certificates, 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 Certificates.

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

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Rosemary Booth Gallogly, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02903, Telephone (401) 222-6300.

MISCELLANEOUS INFORMATION

The descriptions herein of the Subleases, the Leases, and the Declarations of Trust are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by reference to the form thereof and the information with respect thereto included in the Declarations of Trust. The descriptions herein of such documents are outlines only and do not purport to be complete. Copies of such documents may be obtained from the office of the Trustee.

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 June 6, 2007 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2006. Also included as part of the State's Information Statement is a compilation of certain of the State's leading economic indicators. All of the information contained in the State's Information Statement has been prepared and furnished by the State.

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

This Official Statement is submitted only in connection with the sale of the Certificates 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
General Treasurer

By: /s/ Beverly E. Najarian
Director of Administration

June 15, 2007

APPENDIX A

Information Statement of the State of Rhode Island and Providence Plantations

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

DATED: June 6, 2007

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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. 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.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. Local communities are to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The final FY 2007 budget provided that a fixed dollar amount (\$64.7 million) would be distributed as general revenue sharing. The FY 2008 budget as proposed by the Governor recommends a general revenue sharing appropriation of \$65.1 million with appropriations set at 3 percent of tax revenues in FY 2009 and thereafter. Despite these delays and proposed freezes, the local reduction in the levy on inventories has continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2007 and as proposed for FY 2008, 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. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which are expected to yield additional lottery revenues to the State. Most additional revenues were dedicated to tax relief; however, the Governor's FY 2008 budget proposes that the dedication be suspended for FY 2008.

State Aid to Local Communities

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

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled \$18.1 million. The FY 2007 Enacted Budget provides \$49.7

million for this category of aid, an increase of over 170 percent since FY 1997. A related program will provide approximately \$2.7 million in FY 2007 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort 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 2007 Enacted Budget includes \$65.1 million for this program.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2007 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 \$10.9 million were made for FY 2007 to fund entitlements for seven communities. The Governor's FY 2008 budget proposes level funding of these aid programs and a freezing of entitlements for each community. 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 \$12.2 million for FY 2007.

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 includes 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.

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

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

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

Natural Resources

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

Department of Environmental Management. The Department of Environmental Management has primary responsibility for environmental programs and bureaus of the State. The Department is charged with the preservation and

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

Transportation

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

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

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

State Fund Structure – Accounting Basis

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

The State's financial statements were prepared, for the first time for the fiscal year ending June 30, 2002, in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial States – and*

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

In anticipation of the implementation of GASB Statements 43 and 45, "Other Post Employment Benefits," in March 2007, the State obtained a draft actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2005 was estimated to be approximately \$479.8 million, including \$427.3 million for State employees, \$ 32.2 million for State Police, \$17.7 million for the State's share for teachers, \$2.6 million for Legislators, and \$68 thousand for Judges. This was calculated using a long term investment rate of return of 8.25%. The annual required contribution as a percentage of payroll would be 5.46%, 20.06%, .015%, 14.61% and .09% respectively. The State's five-year forecast previously issued in January 2007 reflected an estimated rate of contribution of 8.57% of payroll in FY2009 and thereafter. The Governor's proposed FY 2008 budget does not include funding on an actuarial basis, but continues to provide funding for the pay as you go costs. The actuarial analysis also included estimates utilizing alternative rates of return. This resulted in estimated unfunded liabilities totaling \$549.7 million using a 7.0% rate of return, and \$ 696.2 million using a 5.0% rate of return.

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 Legislature 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 Legislature may override any veto by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. Supplemental appropriation measures shall be submitted by the Governor to the General Assembly on or before the second Tuesday in January. Supplemental appropriations by the General Assembly must be supported by additional revenues and are subject to the Constitutional limitation on State expenditures discussed below.

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

The budget as submitted by the Governor is required to contain a statement of receipts and expenditures for the current fiscal year, the budget year (next fiscal year), and two prior fiscal years. Receipt estimates for the current year and

budget year are those adopted by the State Consensus Revenue Estimating Conference, as adjusted by any change to rates recommended by the Governor.

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of general fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The FY 2006 budget reserve account balance was \$95.4 million.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that will restrict, beginning 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 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.

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

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

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2006 reflect audited revenues.

Major Sources of State Revenue

Tax Revenues: Approximately 67.4 percent of all taxes and departmental receipts in FY 2006 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 59.4 percent of all general revenues.

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

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

In the 1997 Session, the General Assembly adopted then Governor Almond's proposal to lower Rhode Island personal income tax rates over a five-year period beginning with the 1998 tax year. Thus, on January 1, 1998, the personal income tax rate was reduced from 27.5 percent of federal tax liability to 27.0 percent of the same. Effective January 1, 1999 the personal income tax rate was lowered to 26.5 percent of federal tax liability. On January 1, 2000, it was lowered

to 26.0 percent of federal tax liability and effective January 1, 2001 the personal income tax rate was reduced to 25.5 percent of the same. In tax year 2002, Rhode Island's personal income tax rate was lowered to 25.0 percent and applied to Rhode Island taxable income rather than federal tax liability. Under the new tax structure, Rhode Island income tax rates range from 3.75 percent to 9.9 percent depending on income bracket.

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. The Rhode Island Historical Preservation and Heritage Commission has reported that 149 projects utilizing the historic tax credit were completed as of April 2007 with a total tax credit value of \$159.6 million (excluding approximately \$24 million of such tax credits relating to the development of the Masonic Temple that are to be extinguished in a transaction involving the Rhode Island Economic Development Corporation) and another 125 projects are planned or currently underway worth an estimated tax credit value of approximately \$294.9 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 current two year carry back provision for net operating losses and allowed the use of net operating losses only "on a carry forward basis for the number of succeeding taxable years allowed under section 172 of Internal Revenue Code [26 U.S.C.]". These changes to the State's tax code primarily impact subchapter S Corporation filers.

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

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

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

year and beyond. The 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. 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.

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 can 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 is 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 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.

The Rhode Island personal income tax accounted for approximately \$996.8 million, or 31.7 percent, of the State's FY 2006 total general revenues. FY 2006 personal income tax collections rose in dollar amount but decreased in share of total general revenues from FY 2005.

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

The sales and use tax accounted for approximately \$869.2 million, or 27.7 percent, of the State's FY 2006 total general revenues. FY 2006 final sales and use tax collections rose in dollar terms but fell in share of total general revenues from FY 2005.

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, 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, 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 business corporation tax accounted for approximately \$165.1 million, or 5.3 percent, of the State's FY 2006 total general revenues. FY 2006 final business corporations tax collections rose both in dollar terms and in the share of total general revenues from FY 2005.

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

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

The health care provider assessment accounted for approximately \$47.0 million, or 1.5 percent, of the State's FY 2006 total general revenues. The dollar amount increased for the health care provider assessment between FY 2006 and FY 2005. However, over the same period, the health care provider assessment decreased as a 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, 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, 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 public service corporations.

The public service corporation tax accounted for approximately \$96.0 million, or 3.1 percent, of the State's FY 2006 total general revenues. Both the dollar amount and the share of total general revenues increased for the public utilities gross earnings tax between FY 2006 and FY 2005.

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 country on a similar Rhode Island insurance company or its agent doing business to the same extent in such jurisdictions.

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

In 1997, the General Assembly increased the investment tax credit for insurance companies from 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, 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 concurred with 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.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, 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

The insurance companies' tax accounted for approximately \$52.9 million, or 1.7 percent, of the State's FY 2006 total general revenues. Both the dollar amount and the share of total general revenues decreased for the tax on insurance companies between FY 2006 and FY 2005.

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

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

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

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

In 1997, the General Assembly increased the investment tax credit for financial institutions from 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, 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, 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 \$4.0 million, or 0.1 percent, of the State's FY 2006 total general revenues. Both the dollar amount and the share of total general revenues increased for the financial institutions excise tax between FY 2006 and FY 2005.

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 \$1.5 million, or 0.1 percent, of the State's FY 2006 total general revenues. The dollar amount of bank deposits taxes and share of total general revenues remained about the same in FY 2006 versus FY 2005.

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

The estate tax accounted for approximately \$39.2 million, or 1.2 percent, of the State's FY 2006 total general revenues. The dollar amount of estate taxes and share of total general revenues was more in FY 2006 versus FY 2005.

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 \$126.3 million, or 4.0 percent, of the State's FY 2006 total general revenues. Both the dollar amount and the share of total general revenues decreased for the cigarette tax between FY 2006 and FY 2005.

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 \$4.3 million, or 0.1 percent, of the State's FY 2006 total general revenues. The dollar amount of the motor fuel tax transfer and its share of total general revenues decreased between FY 2006 and FY 2005.

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.

Other taxes accounted for approximately \$81.6 million, or 2.6 percent, of the State's FY 2006 total general revenues. FY 2006 other tax collections rose in dollar terms and in share of total general revenues from FY 2005.

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 addition, the General Assembly changed the fee assessed for processing Historic Preservation Tax Credit certificates from a flat fee of between \$500 and \$2,000 to 2.25 percent of total qualified rehabilitation costs effective August 1, 2005.

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

Departmental Receipts were approximately \$287.3 million, or 9.1 percent, of the State's total general revenue in FY 2006. FY 2006 departmental receipts rose on both a nominal basis and as a share of total general revenues when compared to FY 2005.

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

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for

the addition of 2,550 video lottery terminals between the two facilities (1,750 at Lincoln Park and 800 at Newport Grand), provided that the facilities invest \$145.0 million in structural and operational upgrades and expansions within the next three years (\$125.0 million at Lincoln Park and \$20.0 million at Newport Grand). The master contract for Lincoln Park 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 \$324.0 million, which accounted for 10.3 percent of the State's total general revenues in FY 2006. The dollar amount of the lottery transfers to the General Fund increased between FY 2006 and FY 2005 as did the lottery transfers as a share of total general revenues.

The next largest component of Other Sources is the Other Miscellaneous category. The total amount of Other Miscellaneous monies received was approximately \$31.2 million, which accounted for 1.0 percent of the State's audited FY 2006 total general revenues. For FY 2005, these amounts were \$28.2 million and 0.9 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 \$4.3 million in FY 2006.

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

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

Unclaimed property transfers totaled \$14.2 million in FY 2006 and accounted for 0.5 percent of the State's total general revenues for FY 2006. While the dollar amount of the unclaimed property transfer decreased, its share of total general revenues remained approximately the same between FY 2006 and FY 2005.

Restricted Receipts. In FY 2006, the State expended \$96.9 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 2006, the State expended \$1.981 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), Temporary Assistance to Needy Families (TANF), and State Children's Health Insurance Programs – SCHIP (Title XXI). The federal participatory rates for Titles XIX and XXI are recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2006 to September 30, 2007, the rate is 52.35 percent.

ECONOMIC FORECAST

This section describes the economic forecast used as an 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 principal members (the Budget Officer, the House Fiscal Advisor, and the

Senate Fiscal Advisor) (the “Conferees”) are required to “adopt a consensus forecast upon which to base revenue estimates” (R.I.G.L. § 35-16-5 (e)).

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During the November 2006 Revenue Estimating Conference (the “November 2006 Conference”), forecasts were presented by *Economy.com* and *Global Insight*. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

At the November 2006 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 was expanded to include the relevant calendar years and extended to cover the period from 2006 through 2012.

In general, *Economy.com* and *Global Insight* agreed that the State’s economy is on a path of slowing growth for FY 2007 with a moderate rebound in FY 2008. Both consultants believe that Rhode Island will face a variety of different risks in the near future from sources such as higher-than-the-national-average unemployment, worsening household balance sheets, highly leveraged housing markets, and slower population growth than the rest of the country. Having been at the forefront of the housing market surge, Rhode Island has been among the first states to experience the fallout from dropping prices, sales, and construction employment. Being one of the first states to experience such fallout, however, Rhode Island is also likely to experience an earlier economic recovery than other states.

The consensus economic forecast, on both a calendar year and fiscal year basis, for the years 2006 through 2012 appears in the table below.

November 2006 Consensus Economic Forecast							
Annual Growth	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Nonfarm Employment (000' s)	494.0	496.5	501.8	506.8	511.6	515.6	518.7
Nonfarm Employment Growth (%)	0.5	0.5	1.1	1.0	0.9	0.8	0.6
Personal Income (%)	6.0	4.5	4.5	4.7	4.7	4.5	4.4
Wage and Salaries Income (%)	6.0	3.9	4.2	4.4	4.4	4.2	3.9
Dividends, Interest and Rent (%)	7.4	6.5	6.3	6.3	5.9	6.0	5.4
Rates							
Unemployment Rate	5.4	5.6	5.6	5.5	5.4	5.4	5.5
Consumer Price Index (US)	3.4	2.3	2.0	2.0	2.0	2.0	2.2
Ten Year Treasuries	4.8	4.8	5.1	5.4	5.5	5.4	5.5
Three Month Treasuries	4.7	4.6	4.5	4.6	4.5	4.5	4.5
Annual Growth							
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Nonfarm Employment (000' s)	493.1	495.3	499.2	504.3	509.2	513.6	517.2
Nonfarm Employment Growth (%)	0.6	0.5	0.8	1.1	1.0	0.9	0.7
Personal Income (%)	4.6	5.3	4.5	4.6	4.7	4.6	4.5
Wage and Salaries Income (%)	4.6	5.0	4.1	4.3	4.4	4.3	4.1
Dividends, Interest and Rent (%)	3.7	7.0	6.4	6.3	6.1	6.0	5.7
Rates							
Unemployment Rate	5.2	5.5	5.6	5.6	5.5	5.4	5.5
Consumer Price Index (US)	3.8	2.9	2.2	2.0	2.0	2.0	2.1
Ten Year Treasuries	4.6	4.8	5.0	5.3	5.5	5.5	5.5
Three Month Treasuries	4.1	4.7	4.6	4.6	4.6	4.5	4.5

Employment Growth. With respect to employment growth, the consensus economic forecast derived from the November 2006 Conference (the “November Forecast”) projects total non-farm employment growth of 0.5 percent in FY 2007 and 0.8 percent in FY 2008, 0.2 percentage points lower in FY 2007 and 0.1 percentage point lower in FY 2008 from the growth rates shown in the consensus economic forecast derived from the May 2006 Conference (the “May Forecast”). The difference equates to 1,450 fewer jobs created in FY 2007 and 2,050 fewer jobs in FY 2008.

Wage and Salary Income. With respect to growth in wage and salary income, the November Forecast projects an increase for FY 2007 of 0.1 percentage point, and a decrease for FY 2008 of 0.8 percentage points, from the May Forecast.

Personal Income. With respect to growth in personal income, the November Forecast projects an increase in personal income from the May Forecast for FY 2007 and a decrease for FY 2008. Compared to the May Forecast, the November Forecast provides that personal income growth for FY 2009 will remain as expected and then improve during the period of FY 2010 through FY 2012.

Consumer Price Inflation. The November Forecast projects consumer price inflation to remain below 3.0 percent for the entire forecast horizon, which is consistent with the May Forecast. The foregoing notwithstanding, inflation proved higher than expected in FY 2006 by moving from 3.2 percent in the May Forecast to 3.8 percent. The November Forecast increases FY 2007 and FY 2008 consumer price inflation by 0.4 and 0.1 percentage points, respectively, followed by decreases of 0.2 percentage points for each fiscal year in the remainder of the forecast period.

Unemployment Rate. The November Forecast projects the unemployment rate for FY 2007 to increase, as compared to the May Forecast, from 5.0 percent to 5.5 percent. For FY 2008, the unemployment rate increased from 5.0 percent to 5.6 percent. This trend of increasing unemployment projections was consistent through FY 2012.

Dividends, Interest, and Rent Growth. In contrast to the May Forecast, the November Forecast increases dividends, interest, and rent growth for the entire period of FY 2007 through FY 2012 by 1.25 percentage points on average and no less than 1.1 percentage point in any of the forecast years.

May Consensus Economic Forecast

The May Revenue Estimating Conference adopted an economic forecast that is based on a period of gradually increasing employment and income growth through FY 2012, as well as moderate growth in consumer prices. The consensus forecast through 2012 is shown on the following table.

May 2007 Consensus Economic Forecast						
	CY2007	CY2008	CY2009	CY2010	CY2011	CY2012
Nonfarm Employment	497.0	501.0	505.5	510.6	515.7	520.8
Annual Growth						
Nonfarm Employment	0.7	0.8	0.9	1.0	1.0	1.0
Personal Income	4.1	4.9	4.9	4.9	4.5	4.5
Wage and Salaries Income	3.3	4.1	4.1	4.1	3.8	3.8
Dividends, Interest and Rent	6.5	7.5	6.3	5.9	6.0	5.4
Rates						
Unemployment Rate	5.3	5.4	5.4	5.4	5.4	5.4
Consumer Price Index (US)	2.3	2.0	2.0	2.0	2.0	2.2
Ten Year Treasuries	4.8	5.1	5.4	5.5	5.4	5.5
Three Month Treasuries	4.8	4.9	4.9	4.9	4.9	4.5
Fiscal Year Conversion						
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Nonfarm Employment	495.2	499.0	503.3	508.1	513.2	518.3
Annual Growth						
Nonfarm Employment	0.6	0.8	0.9	1.0	1.0	1.0
Personal Income	4.7	4.5	4.9	4.9	4.7	4.5
Wage and Salaries Income	4.0	3.7	4.1	4.1	4.0	3.8
Dividends, Interest and Rent	7.2	7.0	6.9	6.1	6.0	5.7
Rates						
Unemployment Rate	5.2	5.4	5.4	5.4	5.4	5.4
Consumer Price Index (US)	2.8	2.2	2.0	2.0	2.0	2.1
Ten Year Treasuries	4.8	5.0	5.3	5.5	5.5	5.5
Three Month Treasuries	4.8	4.9	4.9	4.9	4.9	4.7

FY 2007 REVENUE ESTIMATE

As a result of the November 2006 Revenue Estimating Conference, the Conferees revised the revenue estimates for FY 2007 (the “Adopted FY 2007 Estimates”) reflected in the enacted budget (the “Enacted FY 2007 Estimates”) and established revenue estimates for FY 2008 (the “FY 2008 Estimates”). For FY 2007, the consensus estimates reflect current projections for the Rhode Island economy at the time of the November 2006 Revenue Estimating Conference and are based on current statutory provisions with respect to rates and assessments, including the expiration of the hospital licensing fee in FY 2007 and the impact of historic preservation tax credits on revenue collections.

Total General Revenues. The FY 2007 Estimate for general revenue adopted at the November 2006 Revenue Estimating Conference, is \$3.190 billion. This reflects a growth rate of 1.6 percent, or \$50.0 million, over audited FY 2006 total general revenues of \$3.140 billion. In contrast, the Enacted FY 2007 Estimate for general revenues showed growth of \$123.3 million over audited FY 2006 total general revenues. The Adopted FY 2007 Estimate also reduces other general revenue sources, including departmental receipts and the lottery transfer to the general fund, by \$78.7 million from the Enacted FY 2007 Estimate of \$735.4 million. The Governor’s Revised FY 2007 budget includes \$30.8 million in revenue enhancements for a total of \$3.220 billion, or 2.5 percent growth over audited FY 2006 general revenues.

Personal Income Tax. Personal income taxes are the largest single source of revenue for the State. The Adopted FY 2007 Estimate for personal income taxes is \$1.068 billion, representing growth of 7.2 percent from audited FY 2006 personal income tax collections and 1.6 percent from the Enacted FY 2007 Estimate. Changes in the following two income tax components, which resulted from the Adopted FY 2007 Estimate, contributed significantly to this increase: (1) withholding payments at 8.0 percent above audited FY 2006 and 1.0 percent above the Enacted FY 2007 Estimate; and (2) estimated payments at 7.6 percent above audited FY 2006 payments and 7.7 percent above the Enacted FY 2007 Estimate. These components had shown slowing growth since FY 2005. In arriving at the Adopted FY 2007 Estimate for personal income taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections. The Governor’s Revised FY 2007 budget does not propose any changes to the November 2006 Revenue Estimating Conference estimate for personal income taxes.

General Business Tax. The Adopted FY 2007 Estimate of general business tax collections is \$338.0 million, a decrease of 7.8 percent from audited FY 2006 collections of \$366.4 million. However, the Adopted FY 2007 Estimate is \$18.4 million above the Enacted FY 2007 Estimate of \$319.6 million, a growth rate of 5.8 percent. The Adopted FY 2007 Estimate for corporate income taxes is \$137.6 million, an increase of 12.4 percent over the Enacted FY 2007 Estimate of \$122.3 million, but a decrease of 16.7 percent over audited FY 2006. Contrary to this estimated decrease are health provider assessments, which are projected to grow by 3.2 percent over audited FY 2006 collections. In arriving at the Adopted FY 2007 Estimate for business taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections. The Governor’s Revised FY 2007 budget proposes to phase in the Affordable Energy Act which was passed in the 2006 Session, resulting in estimated general revenue savings of \$6.6 million in FY 2007, or general business tax collections of \$344.6 million.

Sales and Use Tax. The State’s second largest revenue source remains the sales and use tax. The Adopted FY 2007 Estimate for sales and use tax collections is \$895 million, an increase of \$25.8 million, or 3.0 percent, over audited FY 2006 collections, but a decrease of 2.8 percent, or \$25.8 million, from the Enacted FY 2007 Estimate. The decrease in sales tax collections from the Enacted FY 2007 Estimate reflects weakening fiscal year-to-date sales tax collections believed to be caused by a slowdown in consumer spending on major purchases such as cars, which are subject to the Rhode Island sales tax.

Other Sales and Use Taxes. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The Adopted FY 2007 Estimate for other sales and use taxes is \$181.7 million, a decrease of \$4.2 million, or 2.3 percent, from the Enacted FY 2007 Estimate and a decrease of \$8.2 million, or 4.3 percent, from the audited FY 2006 collections. The difference between the Adopted FY 2007 Estimate and the Enacted FY 2007 Estimate is due to a decrease of \$2.0 million in motor vehicle fees and a decrease of \$2.1 million in cigarette taxes. The decrease in motor vehicle fees is directly related to the decline in car and light truck sales over the past year. The decrease in cigarette tax collections is believed to be the result of consumption declines due to higher cigarette prices as well as illegal sales of cigarettes without official stamps.

Inheritance, Racing and Athletics, and Realty Transfer Taxes. The Adopted FY 2007 Estimate for inheritance, racing and athletics, and realty transfer taxes is \$49.4 million, which is \$973,614, or 1.9 percent, below the Enacted FY 2007

Estimate and \$7.9 million below audited FY 2006 collections. The decrease from the Enacted FY 2007 Estimate is primarily a result of the Conferees' decision to decrease the estimate for realty transfer tax collections by \$1.2 million. The Conferees based this decision on fiscal year-to-date collections and forecasted price and volume declines in the local housing market.

Departmental Receipts. Departmental receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The Adopted FY 2007 Estimate for departmental receipts is \$295.2 million, which is \$1.2 million, or 0.4 percent, below the Enacted FY 2007 Estimate and \$7.9 million, or 2.7 percent, above audited FY 2006 collections.

Other Source Revenues. Other source revenues consist of transfers to the general fund from motor fuel taxes deposited in the transportation fund, the lottery, and unclaimed property, as well as other miscellaneous sources, including DEPCO settlement payments. The Adopted FY 2007 Estimate for other source revenues is \$361.5 million, a decrease of \$77.5 million from the Enacted FY 2007 Estimate and a decrease of \$12.1 million from audited FY 2006 collections. This decrease is due to the Conferees' decision to reduce other miscellaneous sources by \$35.2 million, and the lottery transfer by \$41.5 million.

● *Other Miscellaneous Sources.* The decrease of \$35.2 million in other miscellaneous sources is based on testimony from the Department of Business Regulation that \$40.0 million in proceeds from the AIG settlement will most likely be received in FY 2008 rather than in FY 2007. At the time of the May 2006 Revenue Estimating Conference, the principals incorporated the \$40.0 million into the 2007 fiscal year. However, based on the testimony from the Department of Business Regulation at the November 2006 Revenue Estimating Conference, the settling states have requested a six month extension from the State of New York that, if granted, would allow such states further time to resolve legal issues surrounding acceptance of the settlement. As discussed under May 2007 Revenue Estimating Conference, the revenue estimators removed the AIG settlement from the revenue projections.

● *Lottery Transfer.* The Adopted FY 2007 Estimate for the lottery transfer is \$321.0 million, a decrease of \$41.5 million from the Enacted FY 2007 Estimate and 0.9 percent below audited FY 2006 revenues. The lottery transfer figure is derived in part by transfers to the general fund from video lottery terminals. The Adopted FY 2007 Estimate for growth in transfers to the general fund from video lottery terminals is \$255.0 million, 0.5 percent lower than audited FY 2006 revenues. This decrease is the result of negative year-to-date growth evidenced at Lincoln Park.

FY 2008 REVENUE ESTIMATE

Total General Revenues. The FY 2008 Estimate adopted at the November 2006 Revenue Estimating Conference for total general revenues is \$3.256 billion, an increase of \$66 million over the Adopted FY 2007 Estimate. The FY 2008 Estimate for total taxes is \$2.574 billion, an increase of 1.6 percent over the Adopted FY 2007 Estimate. The FY 2008 Estimate for other general revenue sources, including departmental receipts and the lottery transfer to the general fund, is \$681.6 million, an increase of \$24.9 million over the Adopted FY 2007 Estimate. The Governor's proposed FY 2008 budget contains net revenue enhancements of \$171.7 million, including \$71.6 million for the Hospital Licensing Fee, for total recommended revenues of \$3.427 billion. The Governor's Recommended FY 2008 revenues represent growth of 6.4 percent over the Governor's Revised FY 2007 budget.

Personal Income Taxes. The estimate for personal income taxes adopted at the November 2006 Revenue Estimating Conference was \$1.088 billion. The Governor's Recommended FY 2008 budget estimates the personal income tax to be \$1.096 billion, representing growth of 2.6 percent above the Governor's Revised FY 2007 Estimate. The Governor's FY 2008 personal income tax estimate contains a gain of \$8.6 million in savings from a plan to buy back Historic Structures Tax Credits. It should be noted that the Budget Office estimates that the FY 2008 personal income tax estimate adopted at the November 2006 Revenue Estimating conference incorporated \$69.3 million in revenue lost to the Historic Structures Tax Credits Program. In arriving at the FY 2008 Estimate for personal income taxes, the Conferees considered the projected impact of both the Rhode Island Historic Structures Tax Credits and the Motion Picture Production Tax Credits on collections.

General Business Tax. The FY 2008 Estimate for general business tax collections adopted at the November 2006 Revenue Estimating Conference is \$328.8 million, a decrease of 2.7 percent from the Governor's Revised FY 2007 Estimate of \$338.0 million. The Governor's Recommended FY 2008 budget estimates general business taxes to total \$337.3 million, containing \$8.5 million in revenue enhancements. The two major FY 2008 general business tax revenue

enhancements include savings of \$7.6 million in public utilities gross earnings taxes from phasing in the Affordable Energy Fee and savings of \$1.1 million in insurance companies taxes from the plan to buy back Historic Structures Tax Credits. The primary factor for the estimated decrease in general business taxes is that the Governor's Recommended FY 2008 business corporation taxes are estimated to decrease by 6.3 percent from FY 2007. This decrease more than offsets the modest gains forecasted for the other general business tax components. The primary reason for the decrease is the expected discontinuance of excessively high payments in FY 2007. In arriving at the FY 2008 Estimate for general business taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

Sales and Use Tax. The State's sales and use tax is projected to be the second largest revenue source in FY 2008. The FY 2008 Estimate for sales tax revenues adopted at the November 2006 Revenue Estimating Conference was \$929.5 million. There are no changes from the November 2006 Revenue Estimating Conference sales and use tax estimate in the Governor's Recommended FY 2008 budget. The FY 2008 estimate is an increase of \$34.5 million, or 3.9 percent, over the Governor's Revised FY 2007 Estimate. The increase in the FY 2008 Estimate is mostly due to an expectation that, after the fallout from the housing market, there will be a rebound in the overall state economy.

Other Sales and Use Taxes. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The Governor's Recommended FY 2008 Estimate for other sales and use taxes is \$184.8 million, an increase of \$3.1 million, or 1.7 percent, from the Revised FY 2007 Estimate. The Governor's Revised FY 2007 Estimate proposes no changes from the November 2006 Revenue Estimating Conference estimate for other sales and use taxes.

Inheritance, Racing and Athletics, and Realty Transfer Taxes. The Governor's Recommended FY 2008 Estimate for inheritance, racing and athletics, and realty transfer taxes is \$49.4 million. There is no overall difference between the Adopted FY 2007 Estimate and the FY 2008 Estimate for this group of taxes. The Governor has recommended a change to racing and athletics from the November 2006 Revenue Estimating Conference. The Governor's proposal to bring the State's share of simulcast wagering into parity with live pari-mutuel wagering was originally considered an enhancement of \$1.6 million to the lottery transfer to general revenues but will actually enhance racing and athletics revenues. Currently, the \$1.6 million is included in the lottery transfer estimate. Individually, racing and athletics taxes and realty transfer taxes are heading in a different direction. For instance, the increase of \$300,000 in the FY 2008 Estimate for realty taxes from the Governor's Revised FY 2007 Estimate is offset by the decrease of \$300,000 for racing and athletics taxes. Inheritance taxes are expected to remain at the same levels for FY 2008 as estimated for FY 2007.

Departmental Receipts. Departmental receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The November 2006 Revenue Estimating Conference FY 2008 Estimate for departmental receipts is \$236.3 million, a decrease of \$58.9 million, or 20.0 percent, from the Adopted FY 2007 Estimate. In arriving at the FY 2008 Estimate for departmental receipts, the Conferees considered the following factors: (1) the effect of current law which specifies the expiration of the hospital licensing fee at the end of FY 2007 (the Adopted FY 2007 Estimate for the hospital licensing fee is \$71.6 million); and (2) the disproportionate share ("dish") reimbursement to Slater Hospital, which will not be paid in FY 2007 and will be paid again in FY 2008. Thus, the decrease in the FY 2008 Estimate for departmental receipts is accounted for by the expiration of the hospital licensing fee and the resumption of the "dish" payment. The Governor recommended revenues of \$142.3 million in addition to those estimated at the November 2006 Revenue Estimating Conference. The largest share of additional revenues is from the reinstatement of the hospital licensing fee mentioned above for \$71.6 million.

Other Source Revenues. The FY 2008 Estimate, adopted at the November 2006 Revenue Estimating Conference, for other source revenues is \$445.3 million, an increase of \$83.8 million from the November 2006 Revenue Estimating Conference FY 2007 Estimate. This overall increase in estimated other source revenues is a result of an increase in the following components for FY 2008: (1) other miscellaneous revenues by \$65.0 million; (2) the estimated lottery transfer by \$16.7 million; and (3) unclaimed property estimates by \$2.1 million. The Governor's Recommended FY 2008 estimate for FY 2008 includes \$6.4 million in revenue enhancements to other sources of revenues.

• *Other Miscellaneous Revenues.* The estimate for other miscellaneous revenues adopted at the November 2006 Revenue Estimating Conference for FY 2008 was \$90.5 million. The Governor's Recommended FY 2008 Budget estimates other miscellaneous revenues to be \$93.5 million, an increase of \$3.0 from the November 2006 Revenue Estimating Conference. The increase is due to estimated savings of \$3.0 million resulting from a proposal by the Governor to repeal the restriction on bond premiums from general fund use.

●*Lottery Transfer.* The FY 2008 Estimate adopted at the November 2006 Revenue Estimating Conference for the lottery transfer is \$337.7 million, an increase of 5.2 percent from the Adopted FY 2007 Estimate. The lottery transfer figure is derived in part by transfers to the general fund from video lottery terminals. The FY 2008 Adopted Estimate for growth in transfers to the general fund from video lottery terminals is \$269.1 million, 5.5 percent above the Adopted FY 2007 Estimate for such revenues. The growth from FY 2007 to FY 2008 includes the expected impact from the introduction of additional video lottery terminals at Lincoln Park (newly renamed Twin River) in FY 2008. The Governor recommended \$2.2 million in revenue enhancements to the FY 2008 Estimate for making the State share of simulcast wagering closer to parity with live pari-mutuel wagering and for retaining the unclaimed dedication of lottery proceeds to the Narragansett Indian Tribe until claimed. The \$1.6 million attributable to simulcast wagering would, in fact, be collected as part of the Racings and Athletics tax as mentioned previously.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2005 through 2007 and expenditures for the fiscal years 2005 through 2007. General Fund data on expenditures for FY 2005 and 2006 are derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General, for such fiscal years. Expenditures for FY 2007 reflect the budget enacted by the General Assembly, as adjusted by projected changes to expenditures as contained in Governor's revised FY 2007 budget submitted to the General Assembly in January 2007. In May 2007, the State Budget Office released its third quarterly report which took into account the May Caseload Estimating Conference and other projected changes to expenditures. Those changes are discussed under "May Caseload Estimating Conference" and "Free Surplus". 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 2005 and FY 2006 reflect the audited actual revenues as reported by the State Controller. FY 2007 revenues reflect the budget enacted by the General Assembly, as revised upon consensus estimates of the Revenue Estimating Conference in November 2006, and further revised by changes proposed by the Governor in his recommended FY 2007 revised budget. FY 2008 revenues reflect the consensus estimates of the Revenue Estimating Conference in November 2006, and further revised by changes proposed by the Governor in his recommended FY 2008 budget. These estimates are explained under the section above entitled *FY 2007 Revenue Estimate and FY 2008 Revenue Estimate* and the subheading below entitled *Free Surplus*. In May 2007, the Revenue Estimating Conference revised the estimated revenues for FY 2007 and FY 2008. Those revisions are described below under "May Revenue Estimating Conference" and "Free Surplus". When taking into account changes the Governor had included in his budget which were included in the May revenue estimates, the revenues for FY 2007 would be \$6.3 million less than the Governor included in his budget and \$114.8 million less than in FY 2008.

General Revenues as Recommended

	FY 2005	FY 2006	FY 2007	FY 2007 Governor's Revised ⁽¹⁾	FY 2008 Governor's Recommended ⁽¹⁾
	Actual	Actual	Enacted		
Personal Income Tax	\$979,082,106	\$996,792,298	\$1,051,789,361	\$1,068,800,000	\$1,096,156,883
General Business Taxes					
Business Corporations	116,026,739	165,054,033	122,290,936	137,500,000	128,880,982
Public Utilities Gross Earnings	86,357,789	96,027,349	99,300,000	103,300,000	103,450,000
Financial Institutions	(1,480,365)	3,988,509	(6,200,000)	1,000,000	1,003,344
Insurance Companies	53,333,488	52,877,704	52,700,000	52,700,000	52,782,718
Bank Deposits	1,524,111	1,494,366	1,600,000	1,600,000	1,600,000
Health Care Provider Assessment	46,827,408	47,002,360	49,864,000	48,500,000	49,600,000
Sales and Use Taxes					
Sales and Use	847,726,627	869,162,931	920,774,717	895,000,000	929,500,000
Motor Vehicle	47,137,097	52,625,943	50,000,000	48,000,000	54,890,209
Motor Fuel	1,961,280	31,099	1,106,029	1,000,000	1,100,000
Cigarettes	136,342,162	126,340,938	123,791,000	121,700,000	117,500,000
Alcohol	10,536,807	10,870,193	11,000,000	11,000,000	11,300,000
Controlled Substances	-	-	-	-	-
Other Taxes					
Inheritance and Gift	32,980,957	39,204,438	32,073,614	32,500,000	32,500,000
Racing and Athletics	3,990,803	3,489,811	3,300,000	3,100,000	2,800,000
Realty Transfer	14,423,038	14,591,822	15,000,000	13,800,000	14,100,000
Total Taxes	\$2,376,770,047	\$2,479,553,794	\$2,528,389,657	\$2,539,500,000	\$2,597,164,136
Departmental Receipts	\$267,952,890	\$287,314,592	\$296,432,332	\$296,363,745	\$378,576,314
Taxes and Departmentals	\$2,644,722,937	\$2,766,868,386	\$2,824,821,989	\$2,835,863,745	\$2,975,740,450
Other Sources					
Gas Tax Transfer	\$9,022,662	\$4,322,195	\$4,927,335	\$4,685,000	\$4,685,000
Other Miscellaneous	28,197,313	31,163,069	60,779,212	46,406,706	93,505,000
Lottery	307,549,646	323,899,490	362,500,000	321,968,423	339,852,446
Unclaimed Property	15,617,732	14,243,183	10,800,000	11,482,558	13,669,210
Other Sources	\$360,387,353	\$373,627,937	\$439,006,547	\$384,542,687	\$451,711,656
Total General Revenues	\$3,005,110,290	\$3,140,496,323	\$3,263,828,536	\$3,220,406,432	\$3,427,452,106

⁽¹⁾ FY 2007 and FY 2008 recommended revenues reflect the November 2006 Revenue Estimating Conference estimates modified by proposals submitted by the Governor in his January 2007 budget submission.

Expenditures from All Funds

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised(2)	FY 2008 Recommended
General Government					
Administration(1)	\$ 487,554,067	\$ 503,301,898	\$ 564,837,458	\$ 587,251,583	\$ 625,094,223
Business Regulation	9,754,827	10,437,131	11,739,112	11,663,113	12,500,942
Labor and Training	447,983,389	437,643,846	455,819,840	447,476,498	459,453,891
Revenue(1)	36,234,109	260,392,914	255,530,361	247,167,203	256,830,774
Legislature	28,031,704	30,706,758	33,671,625	34,881,749	35,699,082
Lieutenant Governor	848,006	900,055	963,012	896,416	925,112
Secretary of State	8,593,464	12,173,340	8,444,162	7,265,753	6,099,762
General Treasurer	36,348,161	37,344,072	29,095,958	33,455,104	35,848,637
Boards for Design Professionals	379,272	381,196	390,153	380,240	406,186
Board of Elections	2,569,068	2,392,935	3,335,139	4,302,566	2,024,108
Rhode Island Ethics Commission	969,234	1,156,118	1,297,421	1,273,231	1,543,291
Governor's Office	4,362,965	4,929,963	5,044,144	4,770,397	4,994,823
Public Utilities Commission	4,817,830	5,179,216	6,912,981	7,046,367	7,100,547
Rhode Island Commission on Women	83,741	89,442	99,715	99,023	108,203
Subtotal - General Government	\$ 1,068,529,837	\$ 1,307,028,884	\$ 1,377,181,081	\$ 1,387,929,243	\$ 1,448,629,581
Human Services					
Office of Health & Human Services	-	-	770,120	3,303,656	6,582,551
Children, Youth, and Families	263,113,618	285,549,240	293,117,043	305,788,545	215,583,274
Elderly Affairs	42,036,630	44,439,521	38,769,310	37,816,334	38,413,285
Health	104,931,884	108,187,155	110,177,021	120,116,555	124,208,543
Human Services	1,629,207,079	1,683,206,936	1,642,761,821	1,620,685,713	1,816,522,396
Mental Health, Retardation, & Hospitals	465,965,281	493,607,151	487,185,797	491,883,874	492,784,480
Office of the Child Advocate	420,874	456,409	598,096	596,674	560,757
Commission on Deaf & Hard of Hearing	262,320	300,389	370,329	360,024	387,654
RI Developmental Disabilities Council	598,694	468,398	461,393	461,393	461,111
Governor's Commission on Disabilities	706,319	792,815	1,023,327	954,740	968,079
Commission for Human Rights	1,107,462	1,181,941	1,398,694	1,313,309	1,388,940
Office of the Mental Health Advocate	339,922	377,376	409,492	403,413	430,899
Subtotal - Human Services	\$ 2,508,690,083	\$ 2,618,567,331	\$ 2,577,042,443	\$ 2,583,684,230	\$ 2,698,291,969
Education					
Elementary and Secondary	980,989,560	1,018,058,997	1,076,679,481	1,069,991,410	1,116,205,410
Higher Education - Board of Governors	629,473,283	680,720,917	739,807,969	729,765,619	807,854,050
RI Council on the Arts	2,507,198	2,626,161	4,581,161	4,260,301	6,509,453
RI Atomic Energy Commission	976,442	1,095,360	1,382,908	1,325,436	1,481,463
Higher Education Assistance Authority	23,287,850	22,973,871	29,658,012	27,845,570	34,350,404
Historical Preservation and Heritage Comm.	1,965,282	2,284,109	2,459,763	2,774,257	2,659,172
Public Telecommunications Authority	3,170,445	3,387,939	2,217,167	2,440,455	2,187,056
Subtotal - Education	\$ 1,642,370,060	\$ 1,731,147,354	\$ 1,856,786,461	\$ 1,838,403,048	\$ 1,971,247,008

Expenditures from All Funds

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised(2)	FY 2008 Recommended
Public Safety					
Attorney General	19,628,994	22,225,476	23,137,164	22,910,611	23,846,816
Corrections	151,740,062	161,859,194	178,411,571	176,091,246	199,169,922
Judicial	81,582,201	89,067,157	95,442,437	93,107,507	95,094,008
Military Staff	20,268,716	28,188,402	37,353,846	36,257,265	26,670,671
E-911 Emergency Telephone System	4,918,862	6,259,096	6,868,718	6,752,319	4,772,234
Fire Safety Code Board of Appeal & Review	237,485	295,118	289,299	297,368	303,435
State Fire Marshal	2,221,107	2,373,446	3,029,049	3,023,989	2,956,278
Commission on Judicial Tenure & Discipline	129,108	111,504	114,772	111,216	119,705
Rhode Island Justice Commission	5,295,881	5,393,728	4,901,694	4,452,988	4,342,326
Municipal Police Training Academy	389,141	336,230	470,710	484,620	479,252
State Police	46,460,587	49,748,146	54,342,790	60,662,858	62,544,303
Office Of Public Defender	7,155,719	8,397,923	9,462,246	9,122,185	9,597,262
Subtotal - Public Safety	\$ 340,027,863	\$ 374,255,420	\$ 413,824,296	\$ 413,274,172	\$ 429,896,212
Natural Resources					
Environmental Management	64,728,697	68,197,576	91,950,719	94,767,999	86,314,093
Coastal Resources Management Council	3,830,827	4,483,026	6,907,059	7,361,930	4,165,659
Water Resources Board	2,635,204	1,973,950	2,417,902	2,380,229	2,001,336
Subtotal - Natural Resources	\$ 71,194,728	\$ 74,654,552	\$ 101,275,680	\$ 104,510,158	\$ 92,481,088
Transportation					
Transportation	369,519,134	402,521,803	338,839,441	370,526,906	376,833,630
Subtotal - Transportation	\$ 369,519,134	\$ 402,521,803	\$ 338,839,441	\$ 370,526,906	\$ 376,833,630
Total	\$ 6,000,331,705	\$ 6,508,175,344	\$ 6,664,949,402	\$ 6,698,327,757	\$ 7,017,379,488
Third Quarter Report Projected Change(2)				4,061,884	
Total				\$6,702,389,641	

⁽¹⁾ Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue.

⁽²⁾ FY 2007 reflects projected expenditures reflected in the third quarter report issued by the State Budget Officer on May 15, 2007.

Expenditures from General Revenues

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised(2)	FY 2008 Recommended
General Government					
Administration(1)	\$382,458,648	\$393,743,813	\$442,478,140	\$451,453,511	\$504,432,741
Business Regulation	9,278,429	9,768,223	10,934,704	10,812,564	11,627,571
Labor and Training	7,096,275	7,324,546	6,841,850	6,997,013	6,651,959
Revenue(1)	33,543,709	35,740,584	37,458,039	35,773,913	38,962,530
Legislature	26,933,113	29,355,254	32,219,892	33,472,897	34,175,361
Lieutenant Governor	848,006	900,055	963,012	896,416	925,112
Secretary of State	5,288,648	5,218,294	5,940,917	6,106,546	5,069,542
General Treasurer	3,166,378	2,748,742	2,953,000	2,662,801	2,908,550
Boards for Design Professionals	379,272	381,196	390,153	380,240	406,186
Board of Elections	1,502,197	1,439,759	2,516,239	3,684,992	1,437,214
Rhode Island Ethics Commission	969,234	1,156,118	1,297,421	1,273,231	1,543,291
Governor's Office	4,362,965	4,763,179	4,952,015	4,681,601	4,899,774
Public Utilities Commission	628,341	656,682	743,985	737,811	665,706
Rhode Island Commission on Women	83,741	89,442	99,715	99,023	108,203
Subtotal - General Government	\$476,538,956	\$493,285,887	\$549,789,082	\$559,032,559	\$613,813,740
Human Services					
Office of Health & Human Services	-	-	313,160	297,018	310,738
Children, Youth, and Families	155,364,630	167,965,207	173,191,438	181,378,754	137,351,887
Elderly Affairs	25,660,265	22,123,917	20,095,705	19,364,571	19,381,354
Health	29,859,395	37,324,506	33,303,209	34,417,579	34,204,438
Human Services	694,484,822	718,532,156	725,054,386	716,426,058	813,501,934
Mental Health, Retardation, & Hospitals	230,338,122	249,867,986	238,455,569	238,057,998	239,233,568
Office of the Child Advocate	339,721	445,876	558,096	558,674	520,757
Commission on Deaf & Hard of Hearing	262,320	300,389	355,329	342,524	370,154
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	535,199	539,666	602,202	552,672	535,775
Commission for Human Rights	997,419	984,270	1,075,216	989,630	984,197
Office of the Mental Health Advocate	339,922	377,376	409,492	403,413	430,899
Subtotal - Human Services	\$1,138,181,815	\$1,198,461,349	\$1,193,413,802	\$1,192,788,891	\$1,246,825,701
Education					
Elementary and Secondary	793,955,132	834,246,326	889,376,406	884,303,258	932,174,601
Higher Education - Board of Governors	173,432,404	180,371,797	196,731,350	189,491,502	197,605,320
RI Council on the Arts	1,791,045	1,987,617	2,841,466	2,764,965	2,803,000
RI Atomic Energy Commission	716,418	799,460	836,702	810,531	819,869
Higher Education Assistance Authority	9,956,900	7,729,028	6,747,402	6,708,495	16,019,684
Historical Preservation and Heritage Comm.	1,221,109	1,395,341	1,705,676	1,677,924	1,633,800
Public Telecommunications Authority	1,039,184	1,257,552	1,388,669	1,317,786	1,387,400
Subtotal - Education	\$982,112,192	\$1,027,787,121	\$1,099,627,671	\$1,087,074,461	\$1,152,443,674

Expenditures from General Revenues

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised(2)	FY 2008 Recommended
Public Safety					
Attorney General	\$17,141,816	\$19,895,945	\$20,843,701	\$20,313,531	\$21,335,305
Corrections	146,860,786	151,117,191	162,442,311	156,781,330	189,214,299
Judicial	71,715,433	77,659,933	83,973,989	80,842,834	83,526,524
Military Staff	2,336,253	2,982,041	3,164,919	2,826,113	2,680,355
E-911 Emergency Telephone System	3,881,544	4,341,440	4,485,669	4,098,361	4,772,234
Fire Safety Code Board of Appeal & Review	237,485	295,118	289,299	297,368	303,435
State Fire Marshal	2,099,879	2,243,868	2,838,049	2,596,825	2,728,306
Commission on Judicial Tenure & Discipline	129,108	111,504	114,772	111,216	119,705
Rhode Island Justice Commission	253,856	253,278	163,972	154,303	160,815
Municipal Police Training Academy	342,853	331,008	425,710	404,620	429,252
State Police	42,443,124	45,221,616	49,047,151	54,070,136	52,958,743
Office Of Public Defender	6,871,288	8,270,299	9,326,545	8,882,554	9,435,548
Subtotal - Public Safety	\$294,313,425	\$312,723,241	\$337,116,087	\$331,379,191	\$367,664,521
Natural Resources					
Environmental Management	33,277,951	38,089,630	37,530,496	36,632,436	36,131,647
Coastal Resources Management Council	1,416,887	1,681,767	2,112,667	2,130,724	1,879,559
Water Resources Board	1,087,511	1,358,690	1,937,302	1,825,672	1,909,336
Subtotal - Natural Resources	\$35,782,349	\$41,130,087	\$41,580,465	\$40,588,832	\$39,920,542
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	\$2,926,928,737	\$3,073,387,685	\$3,221,527,107	\$3,210,863,934	\$3,420,668,178
Third Quarter Report Projected Change(2)				4,061,884	
Total				\$3,214,925,818	

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue

(2) FY2007 reflects projected expenditures reflected in the third quarter report issued by the State Budget Office on May 15, 2007.

Expenditures from Federal Funds

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised	FY 2008 Recommended
General Government					
Administration(1)	\$31,726,143	\$28,843,073	\$39,166,078	\$47,810,379	\$46,083,583
Business Regulation	-	-	-	43,291	51,742
Labor and Training	31,826,292	33,831,488	28,609,685	34,373,400	28,124,845
Revenue(1)	1,215,890	1,529,556	1,583,898	2,132,525	1,335,145
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	2,913,387	6,496,305	2,016,890	942,687	586,744
General Treasurer	1,713,752	594,151	1,022,289	1,959,592	1,916,146
Boards for Design Professionals	-	-	-	-	-
Board of Elections	1,066,871	953,176	818,900	617,574	586,894
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Public Utilities Commission	56,367	76,230	88,567	99,853	100,124
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$70,518,702	\$72,323,979	\$73,306,307	\$87,979,301	\$78,785,223
Human Services					
Office of Health & Human Services	-	-	245,357	2,590,789	5,826,265
Children, Youth, and Families	106,338,985	114,995,314	116,464,511	121,926,350	74,712,446
Elderly Affairs	11,769,152	15,196,097	12,623,605	13,101,374	13,056,931
Health	64,504,296	59,868,983	66,163,334	66,437,481	65,079,387
Human Services	931,182,907	961,465,758	909,098,887	895,386,699	993,596,741
Mental Health, Retardation, & Hospitals	232,779,398	240,348,945	244,652,728	247,712,769	244,143,412
Office of the Child Advocate	81,153	10,533	40,000	38,000	40,000
Commission on Deaf & Hard of Hearing	-	-	15,000	17,500	17,500
RI Developmental Disabilities Council	598,694	468,398	461,393	461,393	461,111
Governor's Commission on Disabilities	39,209	71,908	195,681	175,604	181,692
Commission for Human Rights	110,043	197,671	323,478	323,679	404,743
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$1,347,403,837	\$1,392,623,607	\$1,350,283,974	\$1,348,171,638	\$1,397,520,228
Education					
Elementary and Secondary	183,084,922	180,108,204	182,724,069	181,033,147	178,333,355
Higher Education - Board of Governors	2,527,352	1,347,949	3,146,976	3,146,976	3,526,446
RI Council on the Arts	677,768	584,039	731,500	695,336	706,453
RI Atomic Energy Commission	64,899	136,215	375,000	340,705	420,940
Higher Education Assistance Authority	7,360,604	9,185,706	12,852,312	11,600,571	12,612,204
Historical Preservation and Heritage Comm.	569,714	581,658	487,267	605,186	529,078
Public Telecommunications Authority	360,905	-	-	-	-
Subtotal - Education	\$194,646,164	\$191,943,771	\$200,317,124	\$197,421,921	\$196,128,476

Expenditures from Federal Funds

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised	FY 2008 Recommended
Public Safety					
Attorney General	\$1,585,915	\$1,390,957	\$1,055,397	\$1,245,515	\$1,322,964
Corrections	2,889,866	9,064,113	8,338,120	11,440,165	2,807,500
Judicial	2,604,779	2,334,472	2,195,821	2,879,609	1,578,692
Military Staff	17,651,183	24,913,198	32,649,782	29,157,641	22,157,534
E-911 Emergency Telephone System	66,625	171,162	70,936	170,768	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	121,228	129,578	191,000	414,565	227,972
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	5,017,915	5,140,112	4,707,722	4,268,685	4,151,511
Municipal Police Training Academy	46,288	5,222	45,000	80,000	50,000
State Police	1,143,803	1,330,658	1,743,907	2,077,783	1,091,916
Office Of Public Defender	284,431	127,624	135,701	239,631	161,714
Subtotal - Public Safety	\$31,412,033	\$44,607,096	\$51,133,386	\$51,974,362	\$33,549,803
Natural Resources					
Environmental Management	16,417,852	18,683,990	33,786,435	37,292,430	27,747,197
Coastal Resources Management Council	2,279,028	2,086,789	1,599,392	2,059,745	1,607,000
Water Resources Board	606,874	203,685	-	64,122	-
Subtotal - Natural Resources	\$19,303,754	\$20,974,464	\$35,385,827	\$39,416,297	\$29,354,197
Transportation					
Transportation	227,723,125	258,876,586	237,746,529	272,559,520	275,263,422
Subtotal - Transportation	\$227,723,125	\$258,876,586	\$237,746,529	\$272,559,520	\$275,263,422
Total	\$1,891,007,615	\$1,981,349,503	\$1,948,173,147	\$1,997,523,039	\$2,010,601,349

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue.

Expenditures from Restricted Receipts

	FY 2005	FY 2006	FY 2007	FY 2007	FY 2008
	Actual	Actual	Enacted	Revised	Recommended
General Government					
Administration(1)	\$7,544,690	\$1,861,763	\$5,579,789	\$6,536,747	\$12,342,311
Business Regulation	476,398	668,908	804,408	807,258	821,629
Labor and Training	22,322,945	15,355,905	22,889,473	20,082,977	28,283,698
Revenue(1)	740,854	691,133	829,451	790,838	845,506
Legislature	1,098,591	1,351,504	1,451,733	1,408,852	1,523,721
Lieutenant Governor	-	-	-	-	-
Secretary of State	391,429	458,741	486,355	216,520	443,476
General Treasurer	25,494,082	28,150,156	24,816,835	28,519,236	30,730,801
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	117,777	-	-	-
Public Utilities Commission	4,133,122	4,446,304	6,080,429	6,208,703	6,334,717
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$62,202,111	\$53,102,191	\$62,938,473	\$64,571,131	\$81,325,859
Human Services					
Office of Health & Human Services	-	-	211,603	415,849	445,548
Children, Youth, and Families	1,409,503	2,033,284	1,661,094	2,218,781	1,753,941
Elderly Affairs	-	2,362,357	1,250,000	665,389	690,000
Health	10,530,235	10,972,385	10,680,518	19,226,042	24,896,042
Human Services	3,539,350	3,159,071	8,608,548	8,872,956	8,123,721
Mental Health, Retardation, & Hospitals	50,000	6,776	90,000	190,000	3,040,000
Office of the Child Advocate	-	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	22,634	67,055	25,444	26,464	50,612
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$15,551,722	\$18,600,928	\$22,527,207	\$31,615,481	\$38,999,864
Education					
Elementary and Secondary	2,873,249	3,496,007	4,527,067	4,484,864	4,456,569
Higher Education - Board of Governors	532,955	762,134	1,179,479	1,384,896	893,520
RI Council on the Arts	38,385	-	1,008,195	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	174,459	307,110	266,820	491,147	496,294
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$3,619,048	\$4,565,251	\$6,981,561	\$6,360,907	\$5,846,383

Expenditures from Restricted Receipts

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised	FY 2008 Recommended
Public Safety					
Attorney General	\$698,341	\$719,263	\$1,073,066	\$940,298	\$973,547
Corrections	217,362	2,423	-	-	-
Judicial	6,730,331	7,631,618	8,327,627	8,346,584	8,518,792
Military Staff	156,049	264,966	430,385	363,824	407,532
E-911 Emergency Telephone System	970,693	1,746,494	2,312,113	2,483,190	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	24,110	338	30,000	30,000	30,000
Municipal Police Training Academy	-	-	-	-	-
State Police	248,488	164,848	235,411	614,333	312,100
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$9,045,374	\$10,529,950	\$12,408,602	\$12,778,229	\$10,241,971
Natural Resources					
Environmental Management	9,171,245	9,817,750	17,552,240	18,497,716	16,844,363
Coastal Resources Management Council	134,912	669,970	3,195,000	3,165,961	679,100
Water Resources Board	848,273	327,254	400,000	400,000	-
Subtotal - Natural Resources	\$10,154,430	\$10,814,974	\$21,147,240	\$22,063,677	\$17,523,463
Transportation					
Transportation	636,146	(11,959)	3,066,699	644,560	661,834
Subtotal - Transportation	\$636,146	(\$11,959)	\$3,066,699	\$644,560	\$661,834
Total	\$101,208,831	\$97,601,335	\$129,069,782	\$138,033,985	\$154,599,374

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue.

Expenditures from Other Funds

	FY 2005	FY 2006	FY 2007	FY 2007	FY 2008
	Actual	Actual	Enacted	Revised	Recommended
General Government					
Administration(1)	\$65,824,586	\$78,853,249	\$77,613,451	\$81,450,946	\$62,235,588
Business Regulation	-	-	-	-	-
Labor and Training	386,737,877	381,131,907	397,478,832	386,023,108	396,393,389
Revenue(1)	733,656	222,431,641	215,658,973	208,469,927	215,687,593
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	5,973,949	5,851,023	303,834	313,475	293,140
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	49,007	92,129	88,796	95,049
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	\$459,270,068	\$688,316,827	\$691,147,219	\$676,346,252	\$674,704,759
Human Services					
Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	500	555,435	1,800,000	264,660	1,765,000
Elderly Affairs	4,607,213	4,757,150	4,800,000	4,685,000	5,285,000
Health	37,958	21,281	29,960	35,453	28,676
Human Services	-	49,951	-	-	1,300,000
Mental Health, Retardation, & Hospitals	2,797,761	3,383,444	3,987,500	5,923,107	6,367,500
Office of the Child Advocate	-	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	109,277	114,186	200,000	200,000	200,000
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$7,552,709	\$8,881,447	\$10,817,460	\$11,108,220	\$14,946,176
Education					
Elementary and Secondary	1,076,257	208,460	51,939	170,141	1,240,885
Higher Education - Board of Governors	452,980,572	498,239,037	538,750,164	535,742,245	605,828,764
RI Council on the Arts	-	54,505	-	800,000	3,000,000
RI Atomic Energy Commission	195,125	159,685	171,206	174,200	240,654
Higher Education Assistance Authority	5,970,346	6,059,137	10,058,298	9,536,504	5,718,516
Historical Preservation and Heritage Comm.	-	-	-	-	-
Public Telecommunications Authority	1,770,356	2,130,387	828,498	1,122,669	799,656
Subtotal - Education	\$461,992,656	\$506,851,211	\$549,860,105	\$547,545,759	\$616,828,475

Expenditures from Other Funds

	FY 2005 Actual	FY 2006 Actual	FY 2007 Enacted	FY 2007 Revised	FY 2008 Recommended
Public Safety					
Attorney General	\$202,922	\$219,311	\$165,000	\$411,267	\$215,000
Corrections	1,772,048	1,675,467	7,631,140	7,869,751	7,148,123
Judicial	531,658	1,441,134	945,000	1,038,480	1,470,000
Military Staff	125,231	28,197	1,108,760	3,909,687	1,425,250
E-911 Emergency Telephone System	-	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	-	12,599	-
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	-	-	-	-	-
Municipal Police Training Academy	-	-	-	-	-
State Police	2,625,172	3,031,024	3,316,321	3,900,606	8,181,544
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$5,257,031	\$6,395,133	\$13,166,221	\$17,142,390	\$18,439,917
Natural Resources					
Environmental Management	5,861,649	1,606,206	3,081,548	2,345,417	5,590,886
Coastal Resources Management Council	-	44,500	-	5,500	-
Water Resources Board	92,546	84,321	80,600	90,435	92,000
Subtotal - Natural Resources	\$5,954,195	\$1,735,027	\$3,162,148	\$2,441,352	\$5,682,886
Transportation					
Transportation	141,159,863	143,657,176	98,026,213	97,322,826	100,908,374
Subtotal - Transportation	\$141,159,863	\$143,657,176	\$98,026,213	\$97,322,826	\$100,908,374
Total	\$1,081,186,522	\$1,355,836,821	\$1,366,179,366	\$1,351,906,799	\$1,431,510,587

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue.

May 2007 Revenue Estimating Conference

The May 2007 Revenue Estimating Conference increased the November Conference estimates for FY 2007 by \$2.4 million and lowered the FY 2008 estimate by \$102.5 million. The estimates of the Conference are based on current law. Major changes include reductions of \$35.5 million in income tax estimates over the two years, \$32.5 million less in sales taxes and removal of the \$80.0 million AIG settlement estimate. These are partially offset by \$54.8 million in added corporate income taxes.

The Governor had included a number of revenue adjustments to the November Conference in his revised FY 2007 budget and FY 2008 recommended budget. Those that did not require legislation were included by the estimators in the estimates below.

May 2007 Consensus	FY 2007	Change	FY 2008	Change
Personal Income Tax	\$ 1,056.4	\$ (12.4)	1,064.5	\$ (23.1)
Business Corporations	167.0	29.5	154.3	25.3
Public Utilities Gross Earnings	104.0	7.3	95.5	(0.4)
Financial Institutions	3.6	2.6	2.0	1.0
Insurance Companies	52.4	(0.3)	52.6	0.9
Bank Deposits	1.6	-	1.6	-
Health Care Provider Assessment	47.8	(0.7)	48.9	(0.7)
Sales and Use	885.0	(10.0)	907.0	(22.5)
Motor Vehicle	45.3	(2.7)	46.0	(3.0)
Motor Fuel	1.1	0.1	1.1	-
Cigarettes	119.4	(2.3)	112.5	(5.0)
Alcohol	10.9	(0.1)	11.1	(0.2)
Inheritance and Gift	29.6	(2.9)	30.1	(2.4)
Racing and Athletics	2.9	(0.2)	2.6	(0.2)
Realty Transfer	13.8	-	13.8	(0.3)
Total Taxes	\$ 2,540.8	\$ 7.9	\$ 2,543.6	\$ (30.6)
Departmental Receipts	287.9	(7.3)	238.2	1.9
Gas Tax Transfer	4.7	(0.0)	4.7	-
Other Miscellaneous	25.3	(0.2)	12.5	(78.0)
Lottery	322.3	1.3	339.7	2.0
Unclaimed Property	11.0	0.7	14.6	2.2
Total General Revenues	\$ 3,192.0	\$ 2.4	\$ 3,153.3	\$ (102.5)

When the Governor's proposed revenue adjustments not requiring legislation are taken into account in the adopted revenue estimates of the May Conference, revenues are \$6.3 million less than the FY 2007 revenues included in the Governor's revised FY 2007 budget and \$114.8 million less than in the Governor's FY 2008 recommended budget. The highlights of the revenues adopted at the May 2007 Revenue Estimating Conference, excluding any statutory changes proposed by the Governor include:

Taxes. Revenues from taxes are estimated to increase 2.5% in FY 2007 from FY 2006 and grow 0.1% in FY 2008 over the revised FY 2007 estimate. Total estimated taxes for FY 2007 of \$2.54 billion are \$12.4 million above the enacted estimates. FY 2008 total estimated taxes are \$2.544 billion, \$2.8 million above the revised FY 2007 estimate.

Personal Income Tax. The estimates of \$1,056.4 million for FY 2007 and \$1.064 billion for FY 2008 represent unadjusted year over year growth rates of 6.0% and 0.8% respectively. The FY 2007 estimate is \$4.6 million more than enacted. The FY 2008 estimate is \$8.1 million more than the FY 2007 revised estimate, and \$23.1 million less than was projected during the November Revenue Conference.

All Business Taxes. The Conference estimates \$376.4 million in FY 2007 and \$354.9 million in FY 2008 for all business taxes. Year over year growth rates are 2.7% and -5.7%, respectively. The FY 2007 estimate is \$56.8 million more than

enacted; the FY 2008 estimate is \$21.5 million less than the revised estimate. The Business Corporations tax was the largest driver of growth in the current year, realizing a \$29.5 million increase from November estimates. For FY 2008 the Business Corporations tax is projected to increase by \$25.3 million from November estimates, but shows a decline of \$12.7 million from revised FY 2007 estimates. This year over year decrease is primarily attributable to \$18.5 million in collections in FY 2007 that the Division of Taxation reports as a one-time event. After adjusting for the one-time collections, FY 2008 yields a growth rate of 3.9% over FY 2007 revised figures.

Sales Tax. The Conferees estimate sales tax revenues of \$885.0 million in FY 2007 and \$907.0 million in FY 2008. The FY 2007 revenues are \$35.8 million below the enacted estimate, and represent growth of 1.8% over actual FY2006 receipts. Slower than anticipated year-to-date collections was one reason Estimators made this reduction. The FY 2008 estimate is \$22.0 million or 2.5% more than the revised estimate.

Other Sales and Use Taxes. The Conferees estimated \$176.7 million for FY 2007 and \$170.7 million for FY 2008 from the other sales and use taxes, which include motor vehicle fees, cigarettes, and alcohol taxes. The FY 2007 estimate is \$9.2 million less than enacted. The FY 2008 estimate is \$6.0 million less than the revised estimate for FY 2007. The drop in the current fiscal year is attributable to decreases in motor vehicle and cigarette tax collections. In FY 2008, cigarette taxes account for the reduction from the November estimate, based largely on the base change from FY 2007.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$46.3 million in FY 2007 and \$46.5 million in FY 2008. The FY 2007 estimate is \$4.1 million less than enacted, resulting from expected declines in collections for all three of the tax categories. The FY 2008 estimate for total other taxes is \$0.2 million more than the revised estimate.

Departmental Receipts. The Estimators adopted estimates of \$287.9 million in FY 2007 and \$238.2 million in FY 2008 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as General Revenues. The FY 2007 estimate is \$8.5 million less than enacted. The FY 2008 estimate is \$49.7 million less than the revised estimate. FY 2008 drops off mainly due to the end of the hospital license fee in FY 2007, which produces \$71.6 million. That fee has been on a year-to-year basis, and has been extended each year since its inception. However, the Estimators must estimate within current law, under which there would be no fee in FY 2008.

Other Sources. Other source revenue consists of transfers to the General Revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources. These are estimated to produce \$363.3 million in FY 2007 and \$371.5 million in FY 2008. The FY 2007 estimate is \$75.7 million less than enacted. The FY 2008 estimate is \$8.2 million more than the revised estimate. Of note, the FY 2007 Budget as Enacted included \$40.0 million in expected funding from a settlement with AIG, however in November revenue Estimators moved all expected settlement funding to FY 2008, totaling \$80.0 million. The State of Rhode Island is slated to receive approximately \$100.0 million from American International Group, Inc. (AIG) as a penalty for alleged deceptive trade practices by the company. The settlement requires that a national Workers' Compensation pool sign off on the agreement for payment to be made to the states named in the settlement. To date, the pool has not agreed to the settlement, and a September 1, 2007 deadline looms for the pool to sign off. At the May 2007 Revenue Estimating Conference, the estimated AIG settlement funds were removed from the current revenue estimating horizon.

The Lottery is estimated to transfer \$322.3 million in FY 2007 and \$339.7 million in FY 2008. The FY 2007 estimate is a downward revision of \$40.2 million to the enacted estimate, and represents -0.5% growth over actual FY2006 collections. The FY 2008 estimate is an upward revision of \$17.4 million over the revised FY 2007 estimate, and represents 5.4% growth over FY 2007.

May 2007 Caseload Estimating Conference

The Caseload Estimating Conference lowered the November cash assistance and Medicaid caseload estimates by \$13.7 million in FY 2007 and \$24.2 million in FY 2008. They also included changes recommended by the Governor in his budget. When they are taken into account, caseload and medical estimated expenditures is \$12.1 million less in FY 2007 and \$14.8 million less in FY 2008.

May 2007 Revenue and Caseload Combined Impact on the Governor's Budget Proposal

The combined impact of the conference estimates on the Governor's budget, plus adjustments to the rainy day fund transfer, is \$92.4 million less available resources than the Governor's budget. The summary is shown here:

	FY 2007	FY 2008	Combined
Revenue Estimating Conference			
Revenue Changes to November	\$2.4	\$(102.5)	\$(100.1)
Minus amount in Gov. Budget	(8.7)	(12.4)	(21.0)
Change to Governor	\$(6.3)	\$(114.8)	\$(121.2)
 Caseload Estimating Conference			
Caseload Changes to November	(13.7)	(24.2)	(37.9)
Minus amount in Gov. Budget	1.6	9.4	11.0
Change to Governor	(12.1)	(14.8)	(26.9)
 Total Change to Governor			
Combined Conferences Change	\$5.8	\$(100.1)	\$(94.3)
Rainy Day Fund Transfers	(0.1)	2.0	1.9
Total Change	\$5.7	\$(98.1)	\$(92.4)

Free Surplus

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

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. Based upon the first quarterly report, the State Budget Office projected a deficit of \$104.8 million. The State is required by the Constitution to maintain a balanced budget, and has consistently done so in the past. The Governor submitted a supplemental budget for the current year in January 2007, which brought the budget into balance. Some changes included in the budget require the General Assembly's approval. In May 2007, the State Budget Office's third quarterly report projected the deficit had been reduced to \$31.8 million, taking into account the May Revenue and Caseload Estimating Conference and assuming no statutory changes are enacted. There are changes under consideration which would balance the FY 2007 budget. These include

changes which were originally proposed by the Governor (such as the use of \$20 million of tobacco securitization proceeds) and other proposals which are expected to resolve the shortfall as required by the Constitution.

	FY 2006 Audited (In Millions)	FY 2007 Enacted⁽¹⁾ (In Millions)	FY 2007Q1 Projection⁽²⁾ (In Millions)	FY 2007 Revised⁽³⁾ (In Millions)	FY 2007Q3 Projections⁽⁴⁾ (In Millions)
Opening Surplus					
Free Surplus	\$38.7	\$23.7	\$37.7	\$38.3	\$38.3
Reappropriated Surplus	<u>13.5</u>	<u>0.0</u>	<u>17.4</u>	<u>17.4</u>	<u>17.4</u>
Subtotal	52.2	23.7	55.1	55.7	55.7
Revenues and Transfers					
Revenues	2,766.9	2,824.8	2,828.1	2,835.9	2,828.7
Other Sources	<u>373.6</u>	<u>439.0</u>	<u>361.5</u>	<u>384.4</u>	<u>363.3</u>
Subtotal	3,140.5	3,263.8	3,189.6	3,220.4	3,192.0
Transfer					
To Budget Reserve Fund	(63.6)	(65.8)	(64.5)	(65.2)	(64.6)
From Budget Reserve Fund	0.0	0.0	0.0	63.0	0.0
Total Available	\$3,129.1	\$3,221.8	\$3,180.2	\$3,274.0	\$3,183.1
Projected Expenditures	\$3,073.4	\$3,221.5	\$3,285.1	\$3,210.9	\$3,214.9
Free Surplus	\$38.3	\$0.3	\$(104.8)	\$63.1	\$(31.8)
Budget Balancing Plan	0.0	0.0	0.0	0.0	31.9
Reappropriations	17.4	0.0	0.0	0.0	0.0
Total Ending Balances	55.7	0.3	\$(104.8)	\$63.1	0.1
Budget Reserve & Cash Stabilization Account	\$95.4	\$98.6	\$96.8	\$34.7	96.9

*May not add due to rounding.

⁽¹⁾Reflects the FY 2007 budget adopted by the General Assembly in June 2006.

⁽²⁾Reflects the FY 2007 budget enacted by the General Assembly (including the closing FY 2006 surplus), as modified by the changes to revenues estimated by the November 2006 Revenue Estimating Conference and human service caseloads at the Caseload Estimating Conference, and changes to other enacted expenditures as projected by the State Budget Office in the first quarterly report dated November 15, 2006.

⁽³⁾Reflects the Governor's recommended FY 2007 revised budget as proposed in January 2007; the proposal transferred \$63 million from Budget Reserve Fund to General Fund, but combined total of free surplus and reserves were essentially the same.

⁽⁴⁾Reflects the enacted FY 2007 budget as modified by the changes to the revenues at the May 2007 Revenue Estimating Conference and changes to human service caseloads at the Caseload Estimating Conference and changes to other enacted expenditures as projected in the third quarterly report dated May 15, 2007. Assumes current law, with no statutory changes enacted to resolve the budget deficit.

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 State contemplates execution of the sale prior to June 30, 2007, and proceeds from the securitization are expected to be one component of the deficit resolution plan, similar to the 2002 securitization.

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

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2005 through 2007. FY 2005 and FY2006 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. FY 2007 revised estimates reflect the budget enacted by the General Assembly, as modified by the changes to the revenue estimates resulting from the May 2007 Revenue Estimating Conference. Expenditures for FY 2007 include projected changes to the enacted expenditures included in the Governor's proposed FY 2007 revised budget Proposed in January and reflect as a bottom line adjustment the third quarter report issued by the State Budget Office on May 15, 2007. The free surplus for FY 2006 is \$38.3 million, and there were \$17.4 million of reappropriations carried forward. The budget enacted by the General Assembly in June 2006 for FY 2007 was predicated upon available resources of \$3.222 billion net of reserve fund contributions, and expenditures of \$3.222 billion resulting in an estimated closing surplus of \$0.3 million. Projections in the third quarterly report issued in May 2007 revealed resources of \$3.183 billion, expenditures of \$3.215 billion and an estimated deficit of \$31.8 million. The Governor and the Legislature are considering options to bring the FY 2007 and FY 2008 projected revenues and expenditures into balance. Included within the revenue and expenditure change are \$17.4 million of reappropriations from FY 2006. This is reflected in the FY 2007 revised column on the following table.

General Revenue Budget Surplus Statement

	FY2005 Audited	FY2006 Audited	FY2007 Enacted	FY2007 Revised*
Surplus				
Opening Surplus	\$ 24,451,367	\$ 38,698,361	\$ 23,721,453	\$ 38,330,947
Reappropriated Surplus	10,145,888	13,489,214		17,381,365
Subtotal	34,597,255	52,187,575	23,721,453	55,712,312
General Taxes	2,376,770,047	2,479,553,794	2,528,389,657	2,528,389,657
Revenue estimators' revision	-			12,410,343
Changes to adopted revenue estimates				-
Subtotal	2,376,770,047	2,479,553,794	2,528,389,657	2,540,800,000
Departmental Revenues	267,952,890	287,314,592	296,432,332	296,432,332
Revenue estimators' revision	-			(8,532,332)
Changes to adopted revenue estimates				-
Subtotal	267,952,890	287,314,592	296,432,332	287,900,000
Other Sources				
Gas Tax Transfers	9,022,662	4,322,195	4,927,335	4,927,335
Revenue estimators' revision	-			(251,335)
Changes to adopted revenue estimates				-
Other Miscellaneous	28,197,313	31,163,069	60,779,212	60,779,212
Rev Estimators' revision-Miscellaneous	-			(35,458,257)
Changes to adopted revenue estimates				-
Lottery	307,549,646	323,899,490	362,500,000	362,500,000
Revenue Estimators' revision-Lottery	-			(40,200,000)
Changes to adopted revenue estimates				-
Unclaimed Property	15,617,732	14,243,183	10,800,000	10,800,000
Revenue Estimators' revision-Unclaimed	-			200,000
Changes to adopted revenue estimates				-
Subtotal	360,387,353	373,627,937	439,006,547	363,296,955
Total Revenues	\$ 3,005,110,290	\$ 3,140,496,323	\$ 3,263,828,536	\$ 3,191,996,955
Budget Stabilization	(60,591,233)	(63,583,898)	(65,751,000)	(64,606,558)
Total Available	\$ 2,979,116,312	\$ 3,129,100,000	\$ 3,221,798,989	\$ 3,183,102,709
Actual/Enacted Expenditures	\$ 2,926,928,737	\$ 3,073,387,688	\$ 3,221,527,107	\$ 3,221,527,107
Reappropriations	-	-		17,381,365
Supplemental Appropriations Requested	-	-	-	(28,044,538)
Third Quarter forecasted change				4,061,884
Total Expenditures	\$ 2,926,928,737	\$ 3,073,387,688	\$ 3,221,527,107	\$ 3,214,925,818
Free Surplus	\$ 38,698,361	\$ 38,330,947	\$ 271,882	\$ (31,823,109)
Budget Balancing Plan			-	31,900,000
Reappropriations	13,489,214	17,381,365	-	-
Total Ending Balances	\$ 52,187,575	\$ 55,712,312	\$ 271,882	\$ 76,891
Budget Reserve and Cash				
Stabilization Account	\$ 90,866,850	\$ 95,375,847	\$ 98,626,500	\$ 96,909,837

* Reflects the projection of free surplus included in the third quarterly report issued by the State Budget Office on May 15, 2007, assuming no statutory changes are enacted. The Governor and the General Assembly are considering options to resolve the FY2007 projected deficit, as is required by Rhode Island Constitution. Some of these changes may require statutory changes, and therefore are not included in Budget Office's quarterly report which must be based upon current law.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

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

As part of the auditing process for the fiscal year ending June 30, 2005, the State's Auditor General observed certain deficiencies in the State's financial reporting and management capabilities, which are reflected in the State's Auditor General's reports entitled "Single Audit Report" and "Audit Result Highlights and Management Comments" found on the Auditor General's website at www.oag.ri.gov/reports.html. The State dedicated substantial resources in fiscal year 2006 to resolve these issues and has successfully addressed most of the observed deficiencies.

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

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 June 1, 2007, authorized but unissued direct debt totaled \$408,324,627 and there was no authorized but unissued guaranteed debt.

Net Tax Supported Debt Ratios
(in thousands)

	Debt Outstanding June 30, 2002⁽¹⁾	Debt Outstanding June 30, 2003⁽¹⁾	Debt Outstanding June 30, 2004⁽¹⁾	Debt Outstanding June 30, 2005⁽¹⁾	Debt Outstanding June 30,
2006^(1,5)					
Direct Debt:					
Various Purpose Bonds Outstanding	\$ 654,879	\$ 694,933	\$ 737,772	\$ 778,250	\$ 822,881
Variable Rate General Obligations	<u>28,165</u>	<u>27,965</u>	<u>24,865</u>	<u>22,665</u>	<u>19,665</u>
Subtotal	\$ 683,044	\$ 722,898	\$ 762,637	\$ 800,915	\$ 842,546
Guaranteed Debt:					
Narragansett Bay District Commission Bonds ⁽²⁾	<u>15,019</u>	<u>13,119</u>	<u>11,266</u>	-	-
Subtotal	15,019	13,119	11,266	-	-
Other Debt Subject to Annual Appropriation:					
RI Refunding Bond Authority Lease Rental Bonds	132,440	100,705	84,730	74,615	60,320
RI Refunding Bond Authority – Direct	650	-	-	-	-
RI Refunding Bond Auth. – Gurtn Narr. Bay	15	-	-	-	-
Convention Center Authority Outstanding ⁽³⁾	319,435	310,005	302,320	202,855	287,185
Economic Development Corporation – Transportation	-	-	47,405	42,255	79,920
Certificates of Participation – Master Equipment Lease	7,995	8,865	5,180	9,505	13,580
Certificates of Participation – Intake Center	19,500	17,440	15,285	13,025	10,655
Certificates of Participation – Attorney General	2,795	2,795	2,795	2,795	2,795
Certificates of Participation – DLT Howard Complex	21,335	20,365	19,345	18,275	17,150
Certificates of Participation – Pastore Steam Plant	23,440	23,440	23,440	23,440	23,440
Certificates of Participation – Shepards Building	28,820	27,655	26,410	25,080	23,655
Certificates of Participation – Kent County Courthouse	-	-	-	58,910	56,685
Certificates of Participation – Traffic Tribunal Court Complex	-	-	-	21,565	20,765
Certificates of Participation – Training School	-	-	-	51,985	50,205
Rhode Island Housing/Traveler’s Aid/NOP Program	12,550	12,550	12,550	13,060	18,754
Economic Development – Dow Chemical Corporation	25,000	25,000	25,000	24,542	-
Economic Development – URI Power Plant	15,304	14,729	14,134	13,514	12,869
Economic Development – McCoy Stadium	<u>8,780</u>	<u>7,945</u>	<u>7,080</u>	<u>6,180</u>	<u>5,245</u>
Subtotal	618,059	574,849	585,674	601,601	683,223
Performance Based Agreements⁽⁴⁾					
Economic Development – Fidelity Building I	23,615	23,071	22,487	21,847	21,154
Economic Development – Fidelity Building II	10,000	10,000	10,000	10,000	10,000
Economic Development – Fleet Bank Lease	<u>10,500</u>	<u>10,350</u>	<u>10,180</u>	<u>10,015</u>	<u>9,830</u>
Subtotal	44,115	43,421	42,677	41,862	40,984
Gross Debt	1,360,237	1,354,288	1,402,253	1,444,379	1,566,753
Less: Adjustments for Agency Payments:	(72,593)	(70,000)	(67,441)	(54,976)	(29,662)
Net Tax Supported Debt	\$1,287,643	\$1,280,933	\$1,334,812	\$1,389,403	\$1,537,092
Debt Ratios					
Personal Income	\$32,767,677	\$33,747,431	\$35,816,500	\$37,317,500	\$39,018,254
Debt as a Percent of Personal Income	3.93%	3.80%	3.73%	3.72%	3.94%

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

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

(3) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel.

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

(5) Excludes the impact of the State’s issuance of \$74,835,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Refunding Series A and \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B issued on September 28, 2006, its \$98,105,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C issued on October 31, 2006, and its \$120,000,000 Tax Anticipation Notes issued on December 21, 2006.

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, 2006, the State had \$842.5 million of general obligation tax supported bonds outstanding. On September 28, 2006, however, the State issued \$95,515,000 of general obligation tax supported bonds, consisting of its \$74,835,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Refunding Series A, which refunded \$72,930,000 of prior general obligation tax supported bonds of the State, and its \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B. On October 31, 2006, the State issued \$98,105,000 of General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C. On November 7, 2006 the voters approved \$225,290,000 of general obligation bond authorization. Authorized but unissued direct debt totaled \$408.3 million as of June 1, 2007.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State as of June 30, 2006 and includes the issuance of the aforementioned 2006 Series A, B and C Bonds which are supported by State revenues for FY 2007 through FY 2027.

Debt Service Schedule for General Obligation
Debt Issued as of November 15, 2006 for FY 2007-2027

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$46,452,653	\$42,186,362	\$91,639,015
2008	45,215,786	45,569,984	90,785,770
2009	51,193,740	40,387,012	91,580,752
2010	55,729,000	37,607,322	93,336,322
2011	54,785,000	35,022,851	89,807,851
2012	66,945,000	32,195,492	99,140,492
2013	74,635,000	28,505,716	103,140,716
2014	67,780,000	25,043,323	92,823,323
2015	63,660,000	21,669,675	85,329,675
2016	59,070,000	18,646,121	77,716,121
2017	58,445,000	15,746,753	74,191,753
2018	50,215,000	13,093,999	63,308,999
2019	49,125,000	10,725,324	59,850,324
2020	42,700,000	8,571,060	51,271,060
2021	40,010,000	6,662,274	46,672,274
2022	30,490,000	5,058,708	35,548,708
2023	31,920,000	3,648,178	35,568,178
2024	21,710,000	2,293,004	24,003,004
2025	15,595,000	1,240,674	16,835,674
2026	16,375,000	468,595	16,843,595
2027	1,520,000	35,913	1,555,913
Subtotal-Fixed Rate Debt	<u>\$943,571,179</u>	<u>\$397,378,337</u>	<u>\$1,340,949,516</u>
Subtotal-Variable Rate Debt**	19,665,000		
Total*	\$963,236,179		

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of November 15, 2006. Excludes guaranteed and contingent debt. Excludes the \$120,000,000 Tax Anticipation Notes issued on December 21, 2006.

** Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2006 in the amount of \$19,665,000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of June 1, 2007 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 June 1, 2007*</u>
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,764,627
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
Elementary & Secondary Education	Ch. 70-P.L. of 1994	420,000
State Police HQ/Fire Training Academy	Ch. 65-P.L. of 2002	40,070,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	2,900,000
Transportation	Ch. 595-P.L. of 2004	3,600,000
Higher Education Residence Halls	Ch. 595-P.L. of 2004	2,350,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	8,000,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	50,650,000
Pell Library – Undersea Exploration Center	Ch. 595-P.L. of 2004	6,800,000
Historic Preservation and Heritage	Ch. 595-P.L. of 2004	2,250,000
URI Biotechnology & Life Sciences Center	Ch. 595-P.L. of 2004	26,600,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	32,000,000
Higher Education	Ch. 246-P.L. of 2006	72,790,000
Transportation	Ch. 246-P.L. of 2006	88,500,000
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	11,000,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Affordable Housing	Ch. 246-P.L. of 2006	<u>50,000,000</u>
Total Direct Debt		\$408,324,627

Source: State Budget Office

**Reflects issuance of \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B on September 28, 2006, and \$98,105,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C on October 31, 2006. Reflects extinguishment of \$255,000 under Chapter 55 –P.L. of 2000.*

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 June 1, 2007, there was no outstanding or authorized but unissued guaranteed debt.

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.

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

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

In December 1995, the State entered into a lease agreement with a financial institution which issued \$4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. As of June 30, 2006, \$2,795,000 of these certificates were outstanding. This reflects the defeasance of \$775,000 of certificates of participation in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

The State has also entered into a lease agreement with a financial institution that issued \$33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2006, \$10,655,000 was outstanding.

The State has also entered into a lease agreement with a financial institution which issued \$24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. As of June 30, 2006, \$17,150,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued \$34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued \$34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. As of June 30, 2006, \$23,655,000 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, 2006, \$5,245,000 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. As of June 30, 2006, \$13,580,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued \$28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. As of June 30, 2006, there was \$23,440,000 of certificates outstanding. This reflects defeasance of \$3,875,000 in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of \$13,060,000 of debt to provide funds for the relocation of the Traveler’s Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional \$2,250,000 for the Traveler’s Aid project through the loan agreement. In 2006, the State financed \$5.0 million. As of June 30, 2006, there was \$18,756,000 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of \$53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax

Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling \$42,815,000 was sold. As of June 30, 2006, \$79,920,000 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, 2006, there was \$56,685,000 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, 2006, there was \$20,765,000 outstanding.

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, 2006, \$31.154 million of Fidelity bonds were outstanding. Job rent credits resulted in a State obligation of \$1.5 million in 2006, 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, 2006, \$9.830 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 \$29,819,469 at June 30, 2006.

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. The Corporation has benefited from the proceeds of state general obligation bonds, some of which were funded by user fees of the Corporation. All such state general obligation bonds payable from user fees have been satisfied.

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

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

As of June 30, 2006, the Authority had outstanding mortgage agreements and other commitments for \$22,701,951 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, 2006, the Fund had a balance of \$1,556,339. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

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

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

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were

redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2006 totals \$60,320,000.

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

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

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

As of June 30, 2006, the Authority has \$287,185,000 in outstanding debt consisting of the following issues:

- 1993 Series B - \$55,450,000
- 1993 Series C - 565,000
- 2001 Series A - 63,205,000
- 2003 Series A - 41,315,000
- 2005 Series A - 34,150,000
- 2006 Series A - 92,500,000

In 2005, the General Assembly authorized the Authority to issue \$92,500,000 in bonds to acquire the Dunkin Donuts Center (formerly known as the Providence Civic Center) from the City of Providence and to substantially renovate the facility. In December 2005, the Authority acquired the facility and issued \$33,000,000 in taxable Civic Center Revenue Bonds to finance the acquisition and start-up renovation costs. In June 2006, the Authority paid off the \$33,000,000 bridge financing and permanently financed the acquisition and renovations with the proceeds of the taxable 2006 Series A Bonds.

Pursuant to a Lease and Agreement dated as of November 1, 1991, and a Lease and Agreement dated November 30, 2005, each of which is between the Authority, as lessor, and the State, as lessee, the Authority leased the Convention Center facilities and the Dunkin Donuts Civic Center facilities, respectively, 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.

In May 2007, the Authority stated that the costs to complete the renovation of the Dunkin Donuts Center have increased to \$81.4 million from the original budget of \$62 million. The Authority has made a formal request to the General Assembly to approve up to \$15.0 million in additional funding.

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, 2006 totals \$16,897,676.

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, 2006 and 2005 was \$3,550,000 and \$2,000,000 respectively. Future minimum debt payments are \$1,675,000 in fiscal year 2007 and \$625,000 in fiscal years 2008, 2009 and 2010.

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

Fiscal Year	Amount
1995	\$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0
2005	4,300,000
2006	<u>7,500,000</u>
	\$50,915,000

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2006. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$9,545,000 as of June 30, 2006.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and postclosure care costs related to Phases II, III, IV and V. At June 30, 2006, the Corporation had transferred approximately \$31,200,000 into the trust funds to meet the financial requirements of closure and postclosure 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 postclosure care cost.

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, 2006, the Agency has issued bonds in the aggregate amount of \$634,095,000 to fund \$84,342,855 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, 2006 is \$398,380,000 in the clean water state revolving fund (CWSRF wastewater projects), \$55,485,000 for two conduit financings and \$81,985,000 in the drinking water state revolving fund. Also, in years 1997 through 2006, the Agency made a total of \$38,180,000 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 238 buses and 115 vans carrying approximately 24.5 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 and then to \$1.50 in February 2005. 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, 2006, audited results of operations reveal that State-operating assistance to the Authority totaled \$34,840,725, operating revenues totaled \$30,116,994, and other revenues totaled \$17,828,649.

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, 2006, the Corporation had revenue bonds outstanding of \$895,634,250 including conduit debt of \$45,545,000 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, 2006, the outstanding balance was \$21,154,250.

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, 2006, 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, 2006, the outstanding balance was \$9,830,000.

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 are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient.

It is anticipated that in June 2007, the Rhode Island Economic Development Corporation will provide \$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 expects to borrow funds for the transaction from Bank of America and the State will agree to repay the obligation of the Corporation in three equal annual installments beginning in FY 2008. 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. The 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 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 "Airport Act"). "Airport facility" is defined in the Airport 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 and the five general aviation airports (collectively, "Airports") from the State for a term ending June 30, 2036, 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 Bonds ("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.

RIAC does not have the authority to issue bonds or notes or to borrow money without the approval of EDC. In addition, RIAC does not have the power of eminent domain with respect to real property. RIAC does have certain contractual rights under the Lease Agreement to require the State to exercise powers of eminent domain for the benefit of RIAC.

The Board of Directors of RIAC annually approves an operating and maintenance budget, as well as a capital budget for the fiscal year. The Board of Directors relies upon the advice and recommendation of RIAC's Finance & Audit Committee, which consists of three members of the full Board of Directors.

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 commercial carrier. The T.F. Green Airport is primarily an origin – destination airport. In recent years, approximately 95% of the passengers at the Airport either began or ended their journeys at the T.F. Green 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 from the T.F. Green Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Smithfield.
- Quonset Airport – This airport is located in North Kingstown, approximately ten miles south of the T.F. Green Airport. The Rhode Island Air National Guard moved its operations from the T.F. Green 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 Westerly, Rhode Island, the southwest portion of the State, Westerly Airport is approximately thirty-five miles from the T.F. Green Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.
- Newport Airport – This airport is located in Middletown, Rhode Island, approximately seventeen miles from the T.F. Green Airport. Newport Airport is classified as a general aviation airport.
- Block Island Airport – Situated on Block Island, Rhode Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the T.F. Green Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.

As of June 2006, and based upon classifications defined by the U.S. Department of Transportation, the T.F. Green Airport has scheduled passenger service provided by fifteen major/national and three 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, 2006:

- 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 ranked as the 58th busiest airport in the country for the federal fiscal year 2004 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 58th busiest in federal fiscal year 2003, 56th in federal fiscal year 2002, 57th in federal fiscal year 2001 and 58th in federal fiscal year 2000.

Actual enplaned passengers for fiscal year 2006 were 88,485 below fiscal year 2005 enplaned passengers, resulting in a decrease of 3.1%. The decline in enplanements at the Airport is attributable to several factors, including the discontinuation of service to the T.F. Green Airport by Independence Air and the replacement of American mainline service with American Eagle. U.S. Airways and Delta shifted a portion of their existing service to regional jet and commuter affiliates during the fiscal year, further reducing available capacity.

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 on G.O. Bonds issued by the State for airport purposes, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the T.F. Green 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 2020. The balance outstanding at June 30, 2006 and 2005 was \$14.635 million and \$16.721 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, 2006 and 2005 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, 2006 and 2005 was \$55.715 million and \$56.910 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, 2006 and 2005 was \$7.375 million and \$8.38 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, 2006 and June 30, 2005 was \$29.12 million and \$31.725 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, 2006 and June 30, 2005 was \$51.82 million and \$52.665 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 A, B and C Bonds as of June 30, 2006 and June 30, 2005 was \$115.255 million in the aggregate for both years.

Long Term Debt Administration – Intermodal 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, 2006.

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 customer facility charges (CFCs), (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture, (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture, and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the 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, 2006, no amounts have been drawn on the TIFIA loan.

Rhode Island Industrial Facilities Corporation. The Rhode Island Industrial Facilities Corporation is a public body corporate and agency of the State established under Chapter 37.1, title 45 of the General Laws 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, 2006, the Corporation had an outstanding principal balance of conduit debt of \$98,576,859. 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 \$22,701,951 as of June 30, 2006.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and to make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, and to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2006 was \$1,293,020,536 consisting of \$1,094,320,536 of long-term bonds and \$198,700,000 of short-term or convertible-option bonds. Included in the \$1,094,320,536 is \$246,139,574 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$39,000,317 on June 30, 2006. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation. As of June 30, 2006, the Corporation had combined total fund equity of approximately \$278,792,947.

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, 2006, the Authority held \$458,576,697 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, 2006, \$24,140,754 in Rhode Island Family Education Loans and \$215,345,440 in College Bound Loans. As of September 30, 2006, the Authority had \$793,940,000 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. 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, 2006 was \$3,865,000.

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, 2006 was \$9,065,000.

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, 2006, the Corporation had \$1,861,192,452 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, 2006, the TSFC had \$669,375,000 of bonds outstanding.

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 March 21, 2007 the State had 15,665 paid employees. This equates to approximately 15,064.6 full-time equivalent positions. Of this amount, 11,498 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 4,569 employees, or 39.7 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (981 employees); the Rhode Island Brotherhood of Correctional Officers (1,191 employees); the American Association of University Professors (705 employees) to name a few. In addition, there are 4,167 non-union employees. Contracts with fifteen of the collective bargaining units expired on or prior to June 30, 2004. In July 2005, the largest bargaining unit, Council 94, settled a four-year contract which provides for four consecutive cost-of-living adjustments and initiation of co-sharing of employee medical benefit coverage. There are currently two collective bargaining agreements which have not settled. They are the Rhode Island Brotherhood of Correctional Officers and the Physicians. The contracts provide that the terms of the previous contract prevail until a new contract is negotiated.

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, 2005, there are 44 active members of the JRBT and two retirees and beneficiaries. As of June 30, 2005, there are 181 active members of the SPRBP and two retirees and beneficiaries. 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 24 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

Progress Toward Realization of Financing Objectives

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100

percent. For the State employees, the funded ratio decreased from 59.6 percent to 56.3 percent during the period July 1, 2004 to June 30, 2005, while for teachers the ratio decreased from 59.3 percent to 55.4 percent over the same period. During the same period, the funded ratio increased from 73.3% to 87.0% for the judges and from 75.8% to 79.0% for the state police. 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.

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, 2005

	State Employees	Teachers
1. Compensation		
(a) Supplied by ERSRI	\$ 575,746,603	\$ 840,372,663
(b) Adjusted for one-year's pay increase	606,474,789	898,051,154
2. Actuarial accrued liability	3,843,518,875	5,919,156,211
3. Actuarial value of assets	2,163,391,323	3,280,977,321
4. Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,680,127,552	2,638,178,890
5. Remaining amortization period at valuation date	24	24
6. Contribution effective for fiscal year ending:	June 30, 2008	June 30, 2008
7. Payroll projected for two-year delay	652,813,253	966,667,875
8. Amortization of UAAL	126,177,371	197,566,891
9. Normal cost		
(a) Total normal cost rate	10.19%	11.07%
(b) Employee contribution rate	8.75%	9.50%
(c) Employer normal cost rate (a - b)	1.44%	1.57%
10. Employer contribution rate as percent of payroll		
(a) Employer normal cost rate	1.44%	1.57%
(b) Amortization payments (8 / 7)	19.33%	20.44%
(c) Total (a + b)	20.77%	22.01%
11. Estimated employer contribution amount (7 x 10(c))	\$ 135,589,313	\$ 212,763,599

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability ²	Unfunded Actuarial Accrued Liability ³ (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(3)-(2) (4)	(2)/(3) (5)	(6)	(7)
State Employees						
June 30, 1998	\$2,075,619,320	\$2,576,282,134	\$500,662,814	80.6%	\$477,319,627	104.9%
June 30, 1999 ¹	2,201,890,748	2,607,397,329	405,506,581	84.4%	494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,087,585	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
Teachers						
June 30, 1998	3,045,858,851	3,999,722,806	953,863,955	76.2%	636,246,593	149.9%
June 30, 1991	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	105.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	120.2%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June,30 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%

¹Restated numbers based on Entry Age Normal funding method

²Frozen Actuarial Liability for plan years 1998 and prior

³Unfunded Frozen Actuarial Liability for plan year 1998

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

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

ERS Fiscal Year Ended June 30	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required <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>
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%
1998	51,310,092	100%	35,005,382	100%	52,040,574	100%
1997	45,403,827	100%	34,871,679	100%	48,945,845	100%

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	24 years	24 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase ⁽¹⁾	4.50% to 8.25%	4.50% to 17.00%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

(1) Reflects range of estimated increase with highest increases occurring in early years of service and lower increases in later years.

OTHER BENEFITS

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

In anticipation of the issuance and implementation of GASB Statements 43 and 45, "*Other Post Employment Benefits*," in March 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2005 was estimated to be approximately \$479.8 million, including \$427.3 million for State employees, \$ 32.2 million for State Police, \$17.7 million for the State's share for teachers, \$2.6 million for Legislators, and \$68 thousand for Judges. This was calculated using a long term investment rate of return of 8.25%. The annual required contribution as a percentage of payroll would be 5.46%, 20.06%, .015%, 14.61% and .09% respectively. The State's five-year forecast previously issued in January 2007 reflected an estimated rate of contribution of 8.57% of payroll in FY 2009 and thereafter. The Governor's proposed FY 2008 budget does not include funding on an actuarial basis, but continues to provide funding for the pay as you go costs. The actuarial analysis also included estimates utilizing alternative rates of return. This resulted in estimated unfunded liabilities totaling \$549.7 million using a 7.0% rate of return, and \$ 696.2 million using a 5.0% rate of return.

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. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. Gen. Laws § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

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. News reports have estimated the refund amount to be possibly as high as \$4.2 million. The Division of Taxation is

currently working with APC to determine the appropriate refund amount and the effects of the recently reported acquisition of APC that would appear to now result in APC losing its status as a “qualifying corporation” under R.I.G.L. §44-43-8.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2006, 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

EXHIBIT A

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

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

◆ INTEGRITY
◆ RELIABILITY
◆ INDEPENDENCE
◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2006 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 3% 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 opinion, insofar as it relates to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, is based on the reports of the other auditors.

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

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

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

We were unable to obtain sufficient evidence regarding the completeness and valuation of encumbrances outstanding at June 30, 2006 disclosed in the notes to the basic financial statements for the Intermodal Surface Transportation and Grant Anticipation Revenue Vehicle (GARVEE) major funds.

In our opinion, except for the effects of such adjustments, if any, on the IST Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable, amounts due from other governments and agencies, deferred revenue and related expenditures and federal revenue, and except for the effects of such adjustments, if any, on the amount of encumbrances outstanding disclosed for the IST and GARVEE major funds at June 30, 2006, 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 each major fund and the aggregate remaining fund information of the State as of June 30, 2006 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 addition, 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,

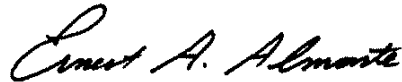
Finance Committee of the House of Representatives
Joint Committee on Legislative Services

and the aggregate discretely presented component units of the State as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the basic financial statements, beginning net assets of the governmental activities on the statement of net assets were increased by \$747 million for the retroactive recognition of the State's investment in infrastructure (net of accumulated depreciation) for fiscal years 1981 to 2001.

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

The Management's Discussion and Analysis, on pages A-4 through A-16, the Budgetary Comparison Schedules on pages A-59 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

December 29, 2006

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, 2006. 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, 2006 by \$1,190.7 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$940.2) million was reported as unrestricted net assets, \$671.8 million was restricted net assets, and \$1,459.1 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 increased by \$96.6 million in fiscal year 2006. Net assets of governmental activities increased by \$88.4 million, while net assets of the business-type activities increased by \$8.2 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$916.6 million, an increase of \$85.0 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$38.3 million, a decrease of \$0.4 million in comparison with the previous fiscal year.
 - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$95.4 million, an increase of \$4.5 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$22.7 million, which was a decrease of \$9.9 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of \$314.3 million of which \$8.1 million is reserved for debt. The fund balance increased by \$118.4 million as a result of the issuance of additional bonds.
- The Rhode Island State Lottery transferred \$323.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$16.3 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
3. Notes to the financial statements

Management's Discussion and Analysis

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.

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

Management's Discussion and Analysis

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 accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund (RICCA) and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic

Management's Discussion and Analysis

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 the end of the year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements

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

Required Supplementary Information

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

Management's Discussion and Analysis

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 \$1,190.7 million at the end of fiscal year 2006, compared to \$347.4 million at the end of the prior fiscal year, before restatement. The primary reason for the \$843.3 million increase was the \$774.5 million increase in investment in capital assets net of related debt, primarily caused by addition of the State's infrastructure assets for fiscal years 1981 through 2001 as required by GASB Statement No. 34. The governmental activities has unrestricted net assets of (\$929.5) 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 represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Assets as of June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,581,097	\$ 1,464,055	\$ 329,272	\$ 257,003	\$ 1,910,369	\$ 1,721,058
Capital assets	2,405,706	1,456,908	151,591	124,874	2,557,297	1,581,782
Total assets	3,986,803	2,920,963	480,863	381,877	4,467,666	3,302,840
Long-term liabilities outstanding	2,219,442	1,992,541	286,281	199,987	2,505,723	2,192,528
Other liabilities	736,626	732,911	34,525	30,010	771,151	762,921
Total liabilities	2,956,068	2,725,452	320,806	229,997	3,276,874	2,955,449
Net assets:						
Invested in capital assets, net of related debt	1,591,074	816,578	(131,941)	(71,413)	1,459,133	745,165
Restricted	369,137	315,370	302,689	233,476	671,826	548,846
Unrestricted	(929,476)	(936,437)	(10,691)	(10,183)	(940,167)	(946,620)
Total net assets	<u>\$ 1,030,735</u>	<u>\$ 195,511</u>	<u>\$ 160,057</u>	<u>\$ 151,880</u>	<u>\$ 1,190,792</u>	<u>\$ 347,391</u>

Management's Discussion and Analysis

As indicated above, the State reported a deficit balance in unrestricted net assets of \$940.2 million at June 30, 2006 in the Government-wide 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 Business-Type Activities;
- 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 increased by \$96.6 million during the current fiscal year. Total revenues of \$7,253.3 million were more than expenses of \$7,156.7 million. Approximately 38.5% of the State's total revenue came from taxes, while 27.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 31.8% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 36.7% and intergovernmental, 16.9%. In fiscal year 2006, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,949.0 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2006 exceeded expenses by \$305.4 million.

Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 360,728	\$ 351,784	\$ 1,947,732	\$ 1,835,511	\$ 2,308,460	\$ 2,187,295
Operating grants and contributions	1,821,134	1,794,965	2,342	2,633	1,823,476	1,797,598
Capital grants and contributions	156,828	97,681			156,828	97,681
General revenues:						
Taxes	2,794,230	2,687,684			2,794,230	2,687,684
Interest and investment earnings	25,644	14,443	8,826	10,875	34,470	25,318
Miscellaneous	114,362	104,411	6,752	7,633	121,114	112,044
Gain on sale of capital assets		853				853
Payments from component units	14,715	18,503			14,715	18,503
Total revenues	<u>5,287,641</u>	<u>5,070,324</u>	<u>1,965,652</u>	<u>1,856,652</u>	<u>7,253,293</u>	<u>6,926,976</u>
Program expenses:						
General government	527,841	503,659			527,841	503,659
Human services	2,622,935	2,512,628			2,622,935	2,512,628
Education	287,119	264,385			287,119	264,385
Public safety	370,706	336,069			370,706	336,069
Natural resources	74,695	65,913			74,695	65,913
Transportation	323,517	226,529			323,517	226,529
Intergovernmental	1,213,050	1,127,496			1,213,050	1,127,496
Interest	92,121	116,171			92,121	116,171
Lottery			1,409,134	1,330,298	1,409,134	1,330,298
Convention Center			37,862	35,746	37,862	35,746
Employment insurance			197,724	209,018	197,724	209,018
Total expenses	<u>5,511,984</u>	<u>5,152,850</u>	<u>1,644,720</u>	<u>1,575,062</u>	<u>7,156,704</u>	<u>6,727,912</u>
Change in net assets before transfers and special items	(224,343)	(82,526)	320,932	281,590	96,589	199,064
Special items				11,948		11,948
Transfers	312,755	293,993	(312,755)	(293,993)		
Change in net assets	88,412	211,467	8,177	(455)	96,589	211,012
Net assets - Beginning	195,511	(15,956)	151,880	152,335	347,391	136,379
Cumulative effect of prior period adjustments	746,812				746,812	
Net assets - Beginning, as restated	942,323	(15,956)	151,880	152,335	1,094,203	136,379
Net assets - Ending	<u>\$ 1,030,735</u>	<u>\$ 195,511</u>	<u>\$ 160,057</u>	<u>\$ 151,880</u>	<u>\$ 1,190,792</u>	<u>\$ 347,391</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 balance of \$916.6 million, an increase of \$85.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$95.4 million for a "rainy day" account, (2) \$69.5 million for continuing appropriations, (3) \$83.5

Management's Discussion and Analysis

million principally for liquidating debt, (4) \$135.8 million for employment insurance programs and (5) \$1.4 million for other restricted purposes. Approximately 53.8% (\$492.8 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 \$38.3 million, while total fund balance was \$203.2 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 0.8% of total General Fund expenditures, while total fund balance represents 4.0% of the same amount. The General Fund's unreserved fund balance decreased from \$38.7 million to \$38.3 million, a decrease of \$0.4 million during the current fiscal year.

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 \$22.7 million, while the total fund balance was \$24.1 million. Total fund balance of the ISTEA fund decreased by \$9.9 million during the current fiscal year. Although the State did not have as harsh of a winter as expected and money was saved on that portion of the ISTEA fund's responsibility, it has been a busy construction season and the prior year's fund balance was used to partially fund this year's projects.

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 \$314.3 million, an increase of \$118.4 million. The reason for this increase was that \$227.0 million of bonds were issued in March 2006.

General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional 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 (\$30.3) million, -1.0%, between the original budget and the final budget. General revenue appropriations changed from the original budget by (\$15.2) million, -0.5%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

Management's Discussion and Analysis

	Original Budget vs. Final Budget Change	Percent
	(In thousands)	
General revenues		
Taxes		
Personal Income	\$ (39,134)	-3.8%
Business Corporations	48,475	44.3%
Sales and Use	(12,888)	-1.5%
Departmental Revenue	(26,529)	-8.5%
Other Miscellaneous	14,291	75.4%
Transfer from Lottery	(18,000)	-5.1%
Other General Revenue	3,452	
Total Change in Estimated Revenue	\$ (30,333)	-1.0%
General revenue appropriations		
Department		
Administration	\$ (6,276)	-1.4%
Children, Youth and Families	3,378	2.1%
Health	5,593	17.5%
Human Services	(46,102)	-6.0%
Mental Health, Retardation and Hospitals	9,571	4.0%
Corrections	12,291	8.3%
Judicial	4,106	5.7%
Other	2,217	
Total Change in Appropriations	\$ (15,222)	-0.5%

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, 2006, amounts to \$2,557.3 million, net of accumulated depreciation of \$1,423.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 61.7% in terms of net book value, primarily caused by addition of the State's infrastructure assets for fiscal years 1981 through 2001 as required by GASB Statement No. 34. The RICCA issued \$92.5 million in taxable bonds to acquire the land and net operating assets of the Dunkin' Donuts Center from the Providence Redevelopment Authority. The acquisition price was \$28.5 million with the balance being dedicated to renovation of the facility.

Actual expenditures to purchase or construct capital assets were \$327.6 million for the year. Of this amount, \$198.6 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$113.4 million.

Management's Discussion and Analysis

State of Rhode Island's Capital Assets as of June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Capital assets not being depreciated						
Land	\$ 332,092	\$ 326,514	\$ 45,558	\$ 31,474	\$ 377,650	\$ 357,988
Intangibles	106,146	90,989			106,146	90,989
Construction in progress	401,673	133,878	3,272	306	404,945	134,184
Total capital assets not being depreciated	839,911	551,381	48,830	31,780	888,741	583,161
Capital assets being depreciated						
Land improvements	3,700	3,601			3,700	3,601
Buildings	438,954	430,678	161,258	148,481	600,212	579,159
Building improvements	208,343	199,469			208,343	199,469
Equipment	204,521	170,620	11,275	8,196	215,796	178,816
Intangibles	1,196	1,196			1,196	1,196
Infrastructure	2,062,959	530,050			2,062,959	530,050
	2,919,673	1,335,614	172,533	156,677	3,092,206	1,492,291
Less: Accumulated depreciation	1,353,878	430,087	69,772	63,583	1,423,650	493,670
Total capital assets being depreciated	1,565,795	905,527	102,761	93,094	1,668,556	998,621
Total capital assets (net)	\$ 2,405,706	\$ 1,456,908	\$ 151,591	\$ 124,874	\$ 2,557,297	\$ 1,581,782

Significant capital projects under construction include relocation of a segment of interstate highway, a county courthouse, a traffic tribunal courthouse, 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 \$1,990.5 million of which \$842.5 million is general obligation debt, \$418.3 million is special obligation debt and \$729.7 million is debt of the blended component units. The State's total bonded debt increased by \$211.2 million during the current fiscal year. This increase is the net of a \$41.2 million increase in general obligation debt, an increase of \$190.3 million in special obligation debt and a decrease of \$20.3 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.

During the current fiscal year, the State issued \$93.4 million of general obligation bonds and \$227.4 million of special obligation bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

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 \$302.1 million. Additional

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information on the State's long-term debt can be found in the notes to the financial statements of this report.

In October 2005, Standard and Poor's raised the underlying rating for general obligation bonds of the State from AA- to AA.

Conditions Expected to Affect Future Operations

In November 2006 the voters of the State approved an amendment to the Rhode Island Constitution that will restrict, 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%) per cent of estimated revenue.

In anticipation of the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers as of December 2003. The actuarially based funding of this liability is reflected in the State's five-year budget forecast and would require an estimated rate of contribution of 8.57% of payroll. The State is obtaining an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the Employees' Retirement System which were enacted during the 2005 session of the General Assembly.

Economic Factors

As evidenced by Rhode Island's performance during the most recent national recession, Rhode Island's ability to weather a slowdown has strengthened significantly compared to prior recessionary periods. More recently, the State's economy has underperformed the region and nation as a whole, most likely because it had not experienced the declines that other states experienced during the recession. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 3,108 jobs, or 0.6 percent in FY 2006. In FY 2005, Rhode Island gained 3,500, an increase of 0.7 percent over FY 2004. On a calendar year basis, Rhode Island added 7,500 jobs in 2004 and 2005. The November 2006 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 495,300 in FY 2007, an increase of 0.5 percent over FY 2006, and 499,200 in FY 2008, an increase of 0.8 percent over projected FY 2007.

According to Moody's Economy.com's November 2006 *Forecast Report: U.S., New England, and Rhode Island*, "[I]n recent years, housing growth entirely offset the drag from manufacturing. Yet as housing slows and with not much improvement expected in manufacturing, overall growth will weaken." The housing market in Rhode Island is contracting with 20 percent fewer housing starts year-to-date from the spring. However, Rhode Island's "[N]on-housing related jobs will offset some of the effects from the housing downturn." In addition, an upside risk to the forecast cited by Moody's Economy.com (11/2006) has come to fruition in that a \$50 million bond referendum for affordable housing construction passed on

Management's Discussion and Analysis

November 7. The bond is expected to result in a “spurring” of “the [S]tate’s construction industry,” as well as “boost the [S]tate’s homeownership rate, a vital component to enhancing the economic well-being of the [S]tate’s residents.” Since FY2002, 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 2006, qualified construction costs totaled \$403.4 million for completed projects, and were estimated to be \$720.7 million for active and proposed projects. This would result in an estimated \$121.0 million in tax credits for completed projects, and \$216.2 million for active and proposed projects.

The education and health services sector accounts for 19.4 percent of Rhode Island total non-farm employment, well above the U.S. average of 13.1 percent. This sector was been responsible for the creation of 73.2 percent of the State’s net jobs in 2005. Rhode Island construction employment increased since the fourth quarter of 2004 and peaked in the first quarter of 2006 fueled by the State’s exceptionally strong housing and commercial real estate markets as well as substantial government spending on road improvement and pollution abatement projects. The State’s manufacturing sector, which had begun to stabilize after an employment decline of 2.9 percent in 2004, once again has turned down, decreasing by 3.2 percent in 2005. Finally, Rhode Island’s “small business economy” has performed well, recording a 13.0 percent increase in the “number of small business births between 2003 and 2004 to a level that now surpasses the previous high in 2000.” In addition, to the sharp increase in small business births, Rhode Island’s “small business terminations have fallen 15.0 percent since peaking in 2002.” This confluence of rising small business births and declining small business terminations “is a positive development, as it brings new talent and ideas into the marketplace.”

Rhode Island personal income growth has also accelerated over the past year, however, the gap between Rhode Island and U.S. personal income growth has narrowed again during this period. In FY 2004, Rhode Island personal income growth was 4.61 percent versus 4.90 percent for U.S. personal income growth, a difference of 29 basis points. In FY 2005, Rhode Island personal income growth was 4.19 percent and U.S. personal income growth was 6.10 percent, a difference of 191 basis points. In FY 2006, Rhode Island personal income growth accelerated to an annual rate of 4.56 percent, however, for the country as a whole the personal income growth rate was 5.90 percent. The reversal of the spread between Rhode Island and U.S. personal income growth is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

According to Moody’s Economy.com (11/2006) Rhode Island payroll employment growth is forecast to stabilize at around a 1.0 percent annualized rate. One of the catalysts for near- to medium-term growth remains rising national defense spending. Moody’s Economy.com (11/2006) notes that “the [S]tate is expected to gain about 861 jobs following the Base Realignment & Closure (BRAC) approvals, mostly at the Newport Naval Station” from the final approval of Commission’s recommendations. These jobs tend to be ones that require high levels of human capital and are being added to complement the already existing job base not only at Naval Station Newport but also at nearby Raytheon. Aquidneck Island has become a national center for the development and testing of undersea surveillance, control and warfare systems.

Management's Discussion and Analysis

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. However, it is expected that “Rhode Island’s economic competitiveness will be enhanced by several pro-business initiatives approved by the state legislature.” These include the personal income flat-tax option, the reduction in the annual cap on property tax, and the Biotechnology Jobs Growth Act.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State’s long term economic performance. According to Moody’s Economy.com (11/2006), “Presently, the industry employs 4,700 workers in the state and Amgen plans to add 450 workers over the remainder of the year.” The state’s “desire to keep biotech companies growing in the state and attracting new ones led to the recently legislated Biotechnology Jobs Growth Act, which extends the duration of the state’s investment tax credit from seven to 15 year for biotechnology companies, subject to their meeting specific wage and employment targets.” The State’s chief assets for the development of a viable biotechnology industry cluster are its “quality work force”, “educational programs at the Community College of Rhode Island and the University of Rhode Island that were developed to train workers specifically for the industry”, a compact geography, and its 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.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2006

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 453,969	\$ 13,800	\$ 467,769	\$ 450,264
Funds on deposit with fiscal agent	403,948	179,621	583,569	
Investments	185		185	228,150
Receivables (net)	305,476	57,446	362,922	206,433
Restricted assets:				
Cash and cash equivalents		16,574	16,574	182,102
Investments	72,452		72,452	149,208
Due from primary government				3,457
Due from component units	9,105		9,105	
Internal balances	2,823	(2,823)		
Due from other governments and agencies	240,889	1,152	242,041	3,699
Inventories	2,874	1,022	3,896	2,555
Other assets	48,207	852	49,059	17,399
Total current assets	<u>1,539,928</u>	<u>267,644</u>	<u>1,807,572</u>	<u>1,243,267</u>
Noncurrent assets:				
Investments				491,468
Receivables (net)	7,673		7,673	2,300,937
Restricted assets:				
Cash and cash equivalents				224,690
Investments		57,733	57,733	7,110
Other assets				166,452
Due from component units	22,683		22,683	
Capital assets - nondepreciable	839,911	48,830	888,741	530,220
Capital assets - depreciable (net)	1,565,795	102,761	1,668,556	1,036,937
Other assets	10,813	3,895	14,708	88,542
Total noncurrent assets	<u>2,446,875</u>	<u>213,219</u>	<u>2,660,094</u>	<u>4,846,356</u>
Total assets	<u>3,986,803</u>	<u>480,863</u>	<u>4,467,666</u>	<u>6,089,623</u>
Liabilities				
Current Liabilities:				
Cash overdraft	4,357		4,357	714
Accounts payable	433,746	12,330	446,076	75,640
Due to primary government				9,105
Due to component units	3,457		3,457	
Due to other governments and agencies		1,336	1,336	700
Deferred revenue	14,711	2,257	16,968	21,160
Other current liabilities	115,788	4,324	120,112	252,868
Current portion of long-term debt	164,567	7,250	171,817	266,928
Obligation for unpaid prize awards		7,028	7,028	
Total current liabilities	<u>736,626</u>	<u>34,525</u>	<u>771,151</u>	<u>627,115</u>
Noncurrent Liabilities:				
Due to primary government				21,979
Due to other governments and agencies				4,301
Deferred revenue		10,000	10,000	1,217
Notes payable				4,576
Loans payable				238,636
Obligations under capital leases	216,887		216,887	19,868
Compensated absences	22,658		22,658	23,700
Bonds payable	1,934,232	276,281	2,210,513	3,141,302
Other liabilities	45,665		45,665	129,402
Total noncurrent liabilities	<u>2,219,442</u>	<u>286,281</u>	<u>2,505,723</u>	<u>3,584,981</u>
Total liabilities	<u>2,956,068</u>	<u>320,806</u>	<u>3,276,874</u>	<u>4,212,096</u>
Net Assets				
Invested in capital assets, net of related debt	1,591,074	(131,941)	1,459,133	808,946
Restricted for:				
Budget reserve	95,376		95,376	
Transportation	1,354		1,354	
Capital projects	9,115		9,115	
Debt	83,496	74,306	157,802	554,319
Employment insurance programs	135,762	228,383	364,145	
Other	43,046		43,046	158,367
Nonexpendable-education	988		988	74,501
Unrestricted	(929,476)	(10,691)	(940,167)	281,394
Total net assets	<u>\$ 1,030,735</u>	<u>\$ 160,057</u>	<u>\$ 1,190,792</u>	<u>\$ 1,877,527</u>

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, 2006
(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	Primary Government		Totals	
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 527,841	\$ 146,575	\$ 67,422	\$ 139	\$ (313,705)		\$ (313,705)	\$
Human services	2,622,935	127,738	1,392,154	470	(1,102,573)		(1,102,573)	
Education	287,119	5,638	31,004		(250,477)		(250,477)	
Public safety	370,706	53,851	38,718	5,889	(272,248)		(272,248)	
Natural resources	74,695	27,487	19,609	9,793	(17,806)		(17,806)	
Transportation	323,517	(561)	115,710	140,537	(67,831)		(67,831)	
Intergovernmental	1,213,050		156,517		(1,056,533)		(1,056,533)	
Interest and other charges	92,121				(92,121)		(92,121)	
Total governmental activities	<u>5,511,984</u>	<u>360,728</u>	<u>1,821,134</u>	<u>156,828</u>	<u>(3,173,294)</u>		<u>(3,173,294)</u>	
Business-type activities:								
State lottery	1,409,134	1,731,315				322,181	322,181	
Convention center	37,862	17,018				(20,844)	(20,844)	
Employment security	197,724	199,399	2,342			4,017	4,017	
Total business-type activities	<u>1,644,720</u>	<u>1,947,732</u>	<u>2,342</u>			<u>305,354</u>	<u>305,354</u>	
Total primary government	<u>\$ 7,156,704</u>	<u>\$ 2,308,460</u>	<u>\$ 1,823,476</u>	<u>\$ 156,828</u>	<u>(3,173,294)</u>	<u>305,354</u>	<u>(2,867,940)</u>	
Component units	<u>\$ 1,124,131</u>	<u>\$ 779,064</u>	<u>\$ 44,159</u>	<u>\$ 53,642</u>				(247,266)
General Revenues:								
Taxes					2,794,230		2,794,230	
Interest and investment earnings					25,644	8,826	34,470	49,639
Miscellaneous					114,362	6,752	121,114	24,869
Gain on sale of capital assets								13,661
Transfers					312,755	(312,755)		
Payments from component units					14,715		14,715	
Payments from primary government								275,590
Total general revenues and transfers					<u>3,261,706</u>	<u>(297,177)</u>	<u>2,964,529</u>	<u>363,759</u>
Change in net assets					88,412	8,177	96,589	116,493
Net assets - beginning, as restated					942,323	151,880	1,094,203	1,761,034
Net assets - ending					<u>\$ 1,030,735</u>	<u>\$ 160,057</u>	<u>\$ 1,190,792</u>	<u>\$ 1,877,527</u>

Exhibit A-18

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, 2006
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 193,742	\$ 5,566	\$	\$ 208,571	\$ 407,879
Funds on deposit with fiscal agent			323,822	80,126	403,948
Investments				185	185
Restricted investments				72,452	72,452
Receivables (net)	239,491	13,440	1,870	40,671	295,472
Due from other funds	16,991				16,991
Due from component units	6,190				6,190
Due from other governments and agencies	159,515	81,374			240,889
Loans to other funds	5,572				5,572
Other assets	42,297			156	42,453
Total assets	\$ 663,798	\$ 100,380	\$ 325,692	\$ 402,161	\$ 1,492,031
Liabilities and Fund Balances					
Liabilities					
Accounts payable	344,889	41,715	8,500	16,124	411,228
Due to other funds		1,617	2,845	10,782	15,244
Due to component units		3,457			3,457
Loans from other funds				22	22
Deferred revenue	28,334	29,227			57,561
Other liabilities	87,378	303		264	87,945
Total liabilities	460,601	76,319	11,345	27,192	575,457
Fund Balances					
Reserved for:					
Budget reserve	95,376				95,376
Appropriations carried forward	69,490				69,490
Debt			8,117	75,379	83,496
State infrastructure bank		1,354			1,354
Employment insurance programs				135,762	135,762
Unreserved, reported in:					
General fund	38,331				38,331
Special revenue funds		22,707		52	22,759
Capital projects funds			306,230	162,788	469,018
Permanent fund				988	988
Total fund balances	203,197	24,061	314,347	374,969	916,574
Total liabilities and fund balances	\$ 663,798	\$ 100,380	\$ 325,692	\$ 402,161	\$ 1,492,031

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, 2006
 (Expressed in Thousands)

Fund balance - total governmental funds	\$	916,574
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.		2,405,706
Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.		(2,397,451)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		76,847
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.		29,059
Net assets - total governmental activities	\$	<u>1,030,735</u>

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, 2006
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,479,554	\$ 142,410	\$	\$ 170,997	\$ 2,792,961
Licenses, fines, sales, and services	253,768	23		66	253,857
Departmental restricted revenue	105,765	(584)			105,181
Federal grants	1,713,287	249,088			1,962,375
Income from investments	2,000	271	7,443	15,227	24,941
Other revenues	31,546	5,395		42,221	79,162
Total revenues	4,585,920	396,603	7,443	228,511	5,218,477
Expenditures:					
Current:					
General government	318,675			197,002	515,677
Human services	2,614,712			1,896	2,616,608
Education	263,735			20,559	284,294
Public safety	361,567			80	361,647
Natural resources	69,538			2,001	71,539
Transportation		212,476	32,852	1,920	247,248
Capital outlays	35,479	114,471	99,727	50,727	300,404
Intergovernmental	1,186,887	18,344		7,819	1,213,050
Debt service:					
Principal	73,700	1,068	37,440	5,455	117,663
Interest and other charges	51,381	223	11,622	42,038	105,264
Total expenditures	4,975,674	346,582	181,641	329,497	5,833,394
Excess (deficiency) of revenues over (under) expenditures	(389,754)	50,021	(174,198)	(100,986)	(614,917)
Other financing sources (uses):					
Bonds and notes issued			227,435	93,385	320,820
Proceeds from the sale of Certificates of Participation				6,000	6,000
Premium and accrued interest			13,963	2,335	16,298
Operating transfers in	441,060	42,150	51,297	59,395	593,902
Payments from component units	14,715				14,715
Other	28,105			208	28,313
Operating transfers out	(75,731)	(102,050)		(102,395)	(280,176)
Total other financing sources (uses)	408,149	(59,900)	292,695	58,928	699,872
Net change in fund balances	18,395	(9,879)	118,497	(42,058)	84,955
Fund balances - beginning	184,802	33,940	195,850	417,027	831,619
Fund balances - ending	\$ 203,197	\$ 24,061	\$ 314,347	\$ 374,969	\$ 916,574

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, 2006
 (Expressed in Thousands)

Net change in fund balances - total governmental funds	\$	84,955
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.		
		200,477
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.		
		(220,469)
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.		
		11,822
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.		
		11,627
Change in net assets - total governmental activities	\$	<u>88,412</u>

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, 2006
(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	\$ 9,926	\$ 2,436	\$ 1,438	\$ 13,800	\$ 46,090
Restricted cash and cash equivalents		16,574		16,574	
Funds on deposit with fiscal agent			179,621	179,621	
Receivables (net)	7,735	479	49,232	57,446	9,148
Due from other funds					2,343
Due from other governments and agencies			1,152	1,152	
Inventories	1,022			1,022	2,874
Other assets	271	581		852	5,754
Total current assets	<u>18,954</u>	<u>20,070</u>	<u>231,443</u>	<u>270,467</u>	<u>66,209</u>
Noncurrent assets:					
Restricted investments		57,733		57,733	
Capital assets - nondepreciable		48,830		48,830	
Capital assets - depreciable (net)	1,314	101,447		102,761	2,923
Other assets		3,895		3,895	130
Total noncurrent assets	<u>1,314</u>	<u>211,905</u>	<u></u>	<u>213,219</u>	<u>3,053</u>
Total assets	<u>20,268</u>	<u>231,975</u>	<u>231,443</u>	<u>483,686</u>	<u>69,262</u>
Liabilities					
Current Liabilities					
Cash overdraft					4,357
Accounts payable	10,706	1,624		12,330	22,519
Due to other funds	1,099		1,724	2,823	1,267
Due to other governments and agencies			1,336	1,336	
Loans from other funds					5,550
Deferred revenue	317	1,940		2,257	
Other current liabilities	1,743	2,581		4,324	3,587
Bonds payable		7,250		7,250	
Obligations under capital leases					215
Obligation for unpaid prize awards	7,028			7,028	
Total current liabilities	<u>20,893</u>	<u>13,395</u>	<u>3,060</u>	<u>37,348</u>	<u>37,495</u>
Noncurrent Liabilities:					
Unearned contract revenue	10,000			10,000	
Bonds payable		276,281		276,281	
Total noncurrent liabilities	<u>10,000</u>	<u>276,281</u>	<u></u>	<u>286,281</u>	<u></u>
Total liabilities	<u>30,893</u>	<u>289,676</u>	<u>3,060</u>	<u>323,629</u>	<u>37,495</u>
Net Assets					
Invested in capital assets, net of related deb	1,314	(133,255)		(131,941)	2,708
Restricted for:					
Debt		74,306		74,306	
Employment insurance program			228,383	228,383	
Unrestricted	(11,939)	1,248		(10,691)	29,059
Total net assets	<u>\$ (10,625)</u>	<u>\$ (57,701)</u>	<u>\$ 228,383</u>	<u>\$ 160,057</u>	<u>\$ 31,767</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, 2006
(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	\$ 1,731,315	\$ 16,570	\$ 198,420	\$ 1,946,305	\$ 332,741
Grants			2,342	2,342	
Miscellaneous		448	979	1,427	
Total operating revenues	<u>1,731,315</u>	<u>17,018</u>	<u>201,741</u>	<u>1,950,074</u>	<u>332,741</u>
Operating expenses:					
Personal services	4,232	7,162		11,394	20,457
Supplies, materials, and services	196,285	12,529		208,814	299,607
Prize awards	1,208,324			1,208,324	
Depreciation and amortization	293	6,964		7,257	676
Benefits paid			191,924	191,924	
Total operating expenses	<u>1,409,134</u>	<u>26,655</u>	<u>191,924</u>	<u>1,627,713</u>	<u>320,740</u>
Operating income (loss)	322,181	(9,637)	9,817	322,361	12,001
Nonoperating revenues (expenses):					
Interest revenue		668	8,158	8,826	703
Other nonoperating revenue	2,343		4,409	6,752	
Interest expense		(11,207)		(11,207)	
Other nonoperating expenses			(5,800)	(5,800)	54
Total nonoperating revenue (expenses)	<u>2,343</u>	<u>(10,539)</u>	<u>6,767</u>	<u>(1,429)</u>	<u>757</u>
Income (loss) before transfers	324,524	(20,176)	16,584	320,932	12,758
Transfers in		16,336	971	17,307	
Transfers out	(323,899)		(6,163)	(330,062)	(971)
Change in net assets	625	(3,840)	11,392	8,177	11,787
Total net assets - beginning	(11,250)	(53,861)	216,991	151,880	19,980
Total net assets - ending	<u>\$ (10,625)</u>	<u>\$ (57,701)</u>	<u>\$ 228,383</u>	<u>\$ 160,057</u>	<u>\$ 31,767</u>

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, 2006
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 1,738,318	\$ 18,314	\$ 201,590	\$ 1,958,222	\$ 335,907
Cash received from grants			2,342	2,342	
Cash payments to suppliers for goods and services	(3,964)	(12,528)		(16,492)	(290,823)
Cash payments to employees for services	(4,413)	(6,997)		(11,410)	(20,642)
Cash payments to prize winners	(1,214,133)			(1,214,133)	
Cash payments for commissions	(190,567)			(190,567)	
Cash payments for benefits			(192,019)	(192,019)	
Other operating revenue (expense)			979	979	54
Net cash provided by (used for) operating activities	325,241	(1,211)	12,892	336,922	24,496
Cash flows from noncapital financing activities:					
Loans from other funds					6,050
Repayment of loans to other funds					(500)
Operating transfers in		16,336	971	17,307	
Operating transfers out	(324,350)		(5,948)	(330,298)	(971)
Net transfers from (to) fiscal agent			(6,841)	(6,841)	
Negative cash balance implicitly financed					4,357
Repayment of prior year negative cash balance implicitly financed	(24)			(24)	(1,761)
Net cash provided by (used for) noncapital financing activities	(324,374)	16,336	(11,818)	(319,856)	7,175
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(75,780)		(75,780)	(517)
Interest paid on capital obligations		(10,149)		(10,149)	
Acquisition of capital assets	(57)	(33,028)		(33,085)	(320)
Proceeds from bonds		160,239		160,239	
Net cash provided by (used for) capital and related financing activities	(57)	41,282		41,225	(837)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		(57,733)		(57,733)	
Interest on investments	1,217	808		2,025	702
Net cash provided by (used for) investing activities	1,217	(56,925)		(55,708)	702
Net increase (decrease) in cash and cash equivalents	2,027	(518)	1,074	2,583	31,536
Cash and cash equivalents, July 1	7,899	19,528	364	27,791	14,554
Cash and cash equivalents, June 30	\$ 9,926	\$ 19,010	\$ 1,438	\$ 30,374	\$ 46,090
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	322,181	(9,637)	9,817	322,361	12,001
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	293	6,964		7,257	676
Other revenue (expense) and operating transfer in (out)	501			501	54
Net changes in assets and liabilities:					
Receivables, net	85	209	3,169	3,463	4,442
Inventory	(267)			(267)	(387)
Prepaid items		(71)		(71)	3,704
Other assets	(70)			(70)	
Accounts and other payables	1,339	(164)	(94)	1,081	4,194
Accrued expenses	567	400		967	(188)
Deferred revenue	137	1,088		1,225	
Prize awards payable	475			475	
Total adjustments	3,060	8,426	3,075	14,561	12,495
Net cash provided by (used for) operating activities	\$ 325,241	\$ (1,211)	\$ 12,892	\$ 336,922	\$ 24,496

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, 2006
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 22,026	\$	\$ 16,689
Deposits held as security for entities doing business in the State			66,899
Receivables			
Contributions	15,933		
Due from state for teachers	12,568		
Miscellaneous	2,203		
Total receivables	<u>30,704</u>		
Investments, at fair value			
Equity in Short-Term Investment Fund	21,663		
Equity in Pooled Trust	7,229,722		
Plan specific investments	20,486		
Other investments		2,155	
Total investments before lending activities	<u>7,271,871</u>	<u>2,155</u>	
Invested securities lending collateral	<u>1,400,373</u>		
Property and equipment, at cost, net of accumulated depreciation	<u>11,379</u>		
Total assets	<u>8,736,353</u>	<u>2,155</u>	<u>83,588</u>
Liabilities			
Securities lending liability	1,400,373		
Accounts payable	6,804		
Deposits held for others			83,588
Total liabilities	<u>1,407,177</u>		<u>83,588</u>
Net assets held in trust for pension and other benefits	<u>\$ 7,329,176</u>	<u>\$ 2,155</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, 2006
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 163,370	\$
Employer contributions	202,433	
State contributions for teachers	54,538	
Interest on service credits purchased	1,530	
Total contributions	421,871	
Investment income		
Net appreciation (depreciation) in fair value of investments	568,203	129
Interest	89,132	
Dividends	87,896	35
Other investment income	64,247	70
	809,478	234
Less investment expense	30,090	
Net income from investing activities	779,388	234
Securities Lending		
Securities lending income	27,076	
Less securities lending expense	24,320	
Net securities lending income	2,756	
Total net investment income	782,144	234
Total additions	1,204,015	234
Deductions		
Benefits		
Retirement benefits	462,439	
Cost of living adjustment	112,689	
SRA Plus Option	28,410	
Supplemental benefits	1,086	
Death benefits	3,254	
Total benefits	607,878	
Refund of contributions	9,826	
Administrative expense	6,959	
Distribution		89
Total deductions	624,663	89
Change in net assets	579,352	145
Net assets held in trust for pension benefits		
Net assets - beginning	6,749,824	2,010
Net assets - ending	\$ 7,329,176	\$ 2,155

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, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
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were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

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

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

Discretely Presented Component Units

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

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of The Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of The Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School

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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, One West Exchange Street, Providence, RI 02903.

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

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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, One West Exchange Street, 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, One West Exchange Street, Providence, RI 02903.

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

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

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

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

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 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 ISTEPA fund 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,

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

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 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 in 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, computer and related data processing services, surplus property, telecommunications and other utilities, and records maintenance.

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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.

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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
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F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

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.

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K. Inventories

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

L. Capital Assets

Capital assets, which include land, 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	\$100,000	20 years
Buildings	\$100,000	20 - 50 years
Building Improvements	\$250,000	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 utilized in the governmental funds are recorded as capital outlay expenditures in the 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.

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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 straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of 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 7(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, among other things, 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 appropriable for expenditure or (2) legally segregated for a specific future use.

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

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R. New Pronouncements

The State implemented the following GASB statements:

Statement No. 42, *Accounting and Financial Reporting For Impairment of Capital Assets and for Insurance Recoveries* - No events occurred during the fiscal year that met the new reporting requirements.

Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*.

Statement No. 46, *Net Assets Restricted by Enabling Legislation* - The changes are detailed in Note 8.

Statement No. 47, *Accounting for Termination Benefits* - No events occurred during the fiscal year that met the new reporting requirements.

Note 2. Budgeting and Budgetary Control

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

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

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

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

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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.

Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2006, the carrying amount of the State's cash deposits was \$116,729,000 and the bank balance was \$133,429,000. 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, \$798,000 was covered by federal depository insurance and \$71,477,000 was collateralized with securities held by the pledging financial institution, as it's agent but not in the State's name. The remaining amount, \$61,153,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$21,724,000 of certificates of deposit.

The General Fund borrowed \$20,000,000 in December 2005, from the R.I. Temporary Disability Fund (TDI), as permitted under RIGL 35-3-23, and \$20,000,000 in March 2006, from the Health Insurance Internal Service fund to cover a cash shortfall. These loans were repaid in full as of June 30, 2006. TDI received \$442,650 in interest, which reflected the average General Fund investment rate for the applicable period. The ISTEAFund also borrowed \$10,000,000 from the General Fund in September 2005, which was repaid in June 2006.

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, 2006.

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."

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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 \$130,370,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling \$72,452,000. 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 body.

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, 2006, the State's investments in Citigroup, Abbey National NA LLC, 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 and Morgan Stanley 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. Of the State's \$82,134,000 investment in repurchase agreements, \$714,000 of underlying securities are held by the investment's counterparty, not in the name of the State.

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

Type	Issuer	Amount	Percentage
Commercial Paper	Morgan Stanley CP	51,528	5.7%
Investment Agreements	Morgan Stanley	49,796	5.5%
Investment Agreements	AIG Matched Funding Corp	208,363	23.1%
Repurchase Agreements	Bank of New York Trust Co.	57,734	6.4%

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

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The State's investments (expressed in thousands) at June 30, 2006 are as follows.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. Government Agency Securities	\$ 19,867	\$ 19,867	\$ 0
Money Market	241,770	241,770	0
Commercial Paper	154,213	154,213	0
Repurchase Agreements	82,134	24,400	57,734
	497,984	\$ 440,250	\$ 57,734
Less amounts classified as cash equivalents	367,614		
Investments	\$ 130,370		

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2006 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Money Market	\$ 90,286	90,286	0	0	0
Investment Agreements	313,663	68,690	241,096	0	3,877
Funds on deposit with fiscal agent	\$ 403,949	\$ 158,976	\$ 241,096	\$ 0	\$ 3,877

The State's investments in money market mutual fund investments 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, 2006, the carrying amounts of the ERS cash deposits was \$22,026,000 and the bank balance was \$22,444,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts, bank money market

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accounts, overnight repurchase agreements and a certificate of deposit (ERSP \$8,500,000). Of the bank balance, \$9,034,000 is covered by federal depository insurance. The remaining bank balance of \$13,410,000 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, 2006.

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. Certain investments are not pooled and are held by only one plan (Plan specific investments).

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. Investment expense for plan specific investments is recorded solely in the respective plan.

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The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2006:

Investment Type	Fair Value
U.S. Government Securities	\$ 582,488
U.S. Government Agency Securities	469,461
Collateralized Mortgage Obligations	43,548
Corporate Bonds	586,883
International Corporate Bonds	34,754
Domestic Equity Securities	1,191,377
International Equity Securities	1,521,897
Foreign Currencies	31,154
Private Equity	436,470
Real Estate	294,751
Money Market Mutual Fund	170,432
Commingled Funds - Domestic Equity	1,779,963
Commingled Funds - International Equity	128,693
Investments at Fair Value	7,271,871
Securities Lending Collateral Pool	1,400,373
Total	\$ 8,672,244

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. Currently each portfolio's duration must be within +/- 20-35% of the effective duration of the appropriate index. The fixed income indices currently used by the ERS are:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman US TIPS Index
- Lehman Brothers MBS Fixed Rate Index
- CS First Boston High Yield Index
- Lehman Corporate Index

At June 30, 2006, 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 at June 30, 2006:

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 582,488	5.56
U.S. Government Agency Securities	469,461	4.37
Collateralized Mortgage Obligations	43,548	3.29
Corporate Bonds	586,883	4.13
International Corporate Bonds	34,754	16.81
Total Fixed Income	<u>\$ 1,717,134</u>	4.92

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 27 days. The maximum maturity of any instrument in the money market mutual fund is 13 months.

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 strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to 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.

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- No single issuer is expected to represent more than 5% of the portfolio's market value.
- 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, 2006 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	International Corporate Bonds
Aaa	\$ 28,974	\$ 469,461	\$ 81,860	\$
Aa	138		46,736	
A	1,753		119,568	
Baa	6,165		88,012	11,034
Ba	473		62,736	
B			157,043	
Caa			14,972	
Ca			429	
C			1,384	
Not rated	6,045		14,143	23,719
Fair Value	<u>\$ 43,548</u>	<u>\$ 469,461</u>	<u>\$ 586,883</u>	<u>\$ 34,753</u>

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.

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, 2006 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, 2006, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ (52)	\$ 89,743	\$	\$ 89,691
Brazilian Real		6,589		6,589
Canadian Dollar	(575)	68,815		68,240
Danish Krone	6	645		651
Euro Currency	15,262	527,160	23,719	566,141
Hong Kong Dollar	315	33,283		33,598
Hungarian Forint		1,794		1,794
Indian Rupee		7,709		7,709
Indonesian Rupiah	253	1,600		1,853
Japanese Yen	3,103	291,102		294,205
Mexican Peso	15	5,835	953	6,803
New Taiwan Dollar		12,443		12,443
New Zealand Dollar	13	5,230		5,243
Norwegian Krone	12	14,491		14,503
Pound Sterling	1,861	311,965		313,826
Russian Ruble		3,353		3,353
Singapore Dollar	101	21,753		21,854
South African Rand	81	6,941		7,022
South Korean Won	1,756	20,645		22,401
Swedish Krona	8,859	21,394	10,082	40,335
Swiss Franc	140	65,810		65,950
Thailand Baht	4	3,597		3,601
Total	<u>\$ 31,154</u>	<u>\$ 1,521,897</u>	<u>\$ 34,754</u>	<u>\$ 1,587,805</u>

The ERS also had exposure to foreign currency risk through its investment in international commingled equity funds.

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 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

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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, 2006 the investment pool had a weighted average maturity of 58 days and an average final maturity of 479 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.

At June 30, 2006, 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

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owe the ERS. The securities on loan at year-end were \$1,381,551,261 (fair value), and the collateral received for those securities on loan was \$1,407,928,257 (fair value).

Private Purpose Trusts

The private purpose trusts had investments of \$2,155,000 in a mutual fund. The average maturity of the fund was not available.

Note 4. Receivables

Receivables at June 30, 2006 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 262,857	\$ 107,630	\$	\$ 485	\$ (123,082)	\$ 247,890
Intermodal Surface Transportation	12,440			1,000		13,440
Other governmental	41,377	875	1,870		(1,581)	42,541
Internal Service		9,148		130		9,278
Total - governmental activities	\$ 316,674	\$ 117,653	\$ 1,870	\$ 1,615	\$ (124,663)	\$ 313,149
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 5,611	\$ 8,012				
Intermodal Surface Transportation		29,227				
Business-type activities:						
State Lottery	\$	\$ 8,091	\$	\$	\$ (356)	\$ 7,735
Convention Center		682			(203)	479
Employment Security	49,433	10,110			(10,311)	49,232
Total - business-type activities	\$ 49,433	\$ 18,883	\$	\$	\$ (10,870)	\$ 57,446
Component Units	\$	\$ 120,695	\$ 30,244	\$ 2,456,379	\$ (62,500)	\$ 2,544,818

Component Units

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

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Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2006, 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	\$ 16,991	\$
Intermodal Surface Transportation Fund		1,617
GARVEE		2,845
Other		
Bond Capital		9,447
RI Temporary Disability Insurance		1,010
COPS		325
Total Other		10,782
Total Governmental	16,991	15,244
Proprietary Funds		
Enterprise		
RI Lottery		1,099
Employment Security Trust Fund		1,724
Total Enterprise		2,823
Internal Service		
Assessed Fringe Benefits		285
Central Utilities	219	
Information Processing		803
Central Postage		93
Centrex	1,081	
Pastore Communications		46
Central Pharmacy	661	
Central Laundry	92	
Automotive Maintenance		10
Central Warehouse	175	
Correctional Industries		27
Health Insurance	115	
Records Center		3
Total Internal Service	2,343	1,267
Totals	\$ 19,334	\$ 19,334

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Note 6. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 326,513	\$ 5,579	\$	\$ 332,092
Intangibles	90,989	15,157		106,146
Construction in progress	233,216	243,371	(74,914)	401,673
Total capital assets not being depreciated	650,718	264,107	(74,914)	839,911
Capital assets being depreciated:				
Land improvements	3,601	99		3,700
Buildings	430,678	8,276		438,954
Building Improvements	199,470	8,873		208,343
Furniture and equipment	170,833	41,734	(8,046)	204,521
Intangibles	1,196			1,196
Infrastructure	2,001,572	61,387		2,062,959
Total capital assets being depreciated	2,807,350	120,369	(8,046)	2,919,673
Less accumulated depreciation for:				
Land improvements	2,339	183		2,522
Buildings	146,337	8,333		154,670
Building Improvements	117,583	8,778		126,361
Furniture and equipment	131,109	17,495	(7,369)	141,235
Intangibles	415	239		654
Infrastructure	856,565	71,871		928,436
Total accumulated depreciation	1,254,348	106,899	(7,369)	1,353,878
Total capital assets being depreciated, net	1,553,002	13,470	(677)	1,565,795
Governmental activities capital assets, net	\$ 2,203,720	\$ 277,577	\$ (75,591)	\$ 2,405,706

Certain beginning balances were restated due to the addition of retrospective infrastructure for fiscal years 1981 through 2001 and adjustments to other capital asset records.

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

General government	\$ 7,113
Human services	8,643
Education	2,939
Public safety	9,691
Natural resources	3,166
Transportation	75,347
Total depreciation expense - governmental activities	\$ 106,899

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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 31,474	\$ 14,084	\$	\$ 45,558
Construction in progress	306	3,121	(155)	3,272
Total capital assets not being depreciated	31,780	17,205	(155)	48,830
Capital assets being depreciated:				
Buildings	148,481	12,777		161,258
Machinery and equipment	8,196	3,404	(325)	11,275
Total capital assets being depreciated	156,677	16,181	(325)	172,533
Less accumulated depreciation	63,583	6,511	(321)	69,772
Total capital assets being depreciated, net	93,094	9,670	(4)	102,761
Business-type activities capital assets, net	\$ 124,874	\$ 26,875	\$ (159)	\$ 151,591

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 79,898	\$ 6,478	\$ (2,188)	\$ 84,188
Construction in progress	339,728	161,372	(55,068)	446,032
Total capital assets not being depreciated	419,626	167,850	(57,256)	530,220
Capital assets being depreciated:				
Buildings	985,223	42,376	(1,572)	1,026,027
Land improvements	133,525	11,107		144,632
Machinery and equipment	246,631	32,570	(12,828)	266,373
Infrastructure	309,895	15,271		325,166
Total capital assets being depreciated	1,675,274	101,324	(14,400)	1,762,198
Less accumulated depreciation for:				
Buildings	363,500	36,364	(1,223)	398,641
Land improvements	66,960	9,551		76,511
Machinery and equipment	142,724	19,798	(10,222)	152,300
Infrastructure	91,877	5,932		97,809
Total accumulated depreciation	665,061	71,645	(11,445)	725,261
Total capital assets being depreciated, net	1,010,213	29,679	(2,955)	1,036,937
Total capital assets, net	\$ 1,429,839	\$ 197,529	\$ (60,211)	\$ 1,567,157

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Note 7. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2006, 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		
2007	\$ 92,178	\$ 111,675	\$ 7,250	\$ 14,275	\$ 151,098	\$ 144,051
2008	91,791	103,648	8,975	14,286	184,671	139,049
2009	96,599	96,276	9,285	13,853	123,175	131,475
2010	84,284	91,382	9,740	13,408	86,184	127,105
2011	78,660	87,337	10,205	12,938	84,784	123,587
2012-2016	488,860	363,525	59,010	56,507	519,877	553,411
2017-2021	311,915	258,248	73,445	40,602	491,535	439,856
2022-2026	206,295	191,297	58,070	22,225	466,577	320,308
2027-2031		167,686	27,305	11,745	480,807	217,207
2032-2036	168,260	126,462	23,900	3,727	387,297	115,453
2037-2041		116,156			309,520	21,988
2042-2046	371,700	23,231			7,945	1,242
	<u>\$ 1,990,542</u>	<u>\$ 1,736,923</u>	<u>\$ 287,185</u>	<u>\$ 203,566</u>	<u>\$ 3,293,470</u>	<u>\$ 2,334,732</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.

Included in the current interest bonds is \$19,665,000 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 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

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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 Rhode Island 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 which 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. During fiscal year 2006, RIEDC issued Grant Anticipation Revenue bonds and Motor Fuel Tax Revenue bonds of \$184,620,000 and \$42,815,000, respectively.

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, 2006, TSFC utilized \$5,455,000 of excess collections to early redeem an equal amount of outstanding bonds.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual 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*

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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 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, 2006 was \$1,892,305. The Bonds mature in varying installments through May 15, 2027; \$63,205,000 of these bonds remain outstanding at June 30, 2006.

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, 2006 under the Swap Agreement was \$2,232,900. Total interest received by the RICCA from UBSAG for the years ended June 30, 2006 under the Swap

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Agreement was \$1,711,600. 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, 2006, the fair value of RICCA's liability for the interest rate swap was approximately \$1,047,000.

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. 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, 2006 totaled \$109,725.

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 December 2005, RICCA issued Civic Center Revenue Bonds, 2005 Series A (federally taxable), in an aggregate principal amount of \$33,000,000 for the purpose of (i) financing the Center acquisition, (ii) paying capitalized interest on these bonds. The Civic Center Revenue Bonds, 2005 Series A were a short-term private placement with Merrill Lynch, Pierce, Fenner & Smith, maturing September 1, 2006. The bonds bore interest at a variable rate, initially 4.811%, based on the one month London InterBank Offered Rate (LIBOR) plus .50%. The bonds were subject to optional early redemption prior to maturity at the election of RICCA at any time on or after April 1, 2006, at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest and unpaid interest at the redemption date. RICCA exercised this option during June 2006.

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

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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 \$353,000,000. At June 30, 2006, total outstanding bond and note indebtedness equals \$287,200,000.

At June 30, 2006 general obligation bonds authorized by the voters and unissued amounted to \$302,100,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

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

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) 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.

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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 Airport Corporation (RIAC), RIEDC and the Rhode Island 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, 2006, RIAC had no borrowings under this agreement.

The Narragansett Bay Commission (NBC) has entered into a standby bond purchase agreement (liquid 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.

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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, \$21,924,000 at June 30, 2006 (See Note 21). The insured mortgages are guaranteed by the State.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2006 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.	\$ 1,987
R.I. Housing and Mortgage Finance Corporation bank notes, 4.21% to 5.54% interest, payable through 2007.	78,000
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	857
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	3,550
	84,394
Less: current payable	(79,818)
	\$ 4,576

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 \$258,756,858.

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, 2006 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.

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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, 2006.

Fiscal Year Ending June 30	COPS
2007	\$ 25,425
2008	25,390
2009	24,901
2010	23,693
2011	20,852
2012 - 2016	92,977
2017 - 2021	68,890
2022 - 2026	37,421
Total future minimum lease payments	319,549
Amount representing interest	(92,794)
Present value of future minimum lease payments	\$ 226,755

E. Compensated Absences

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

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

F. Other Long-Term Liabilities

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.

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G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2006, 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	\$ 800,306	\$ 93,385	\$ (51,448)	\$ 842,243	\$ 46,192	\$ 796,051
Capital appreciation bonds	610		(306)	304	186	118
Accreted interest on capital appreciation bonds	9,570	2,633	(6,084)	6,119	4,724	1,395
Premium and deferred amount on refunding	33,147	2,238	(2,835)	32,550		32,550
	<u>843,633</u>	<u>98,256</u>	<u>(60,673)</u>	<u>881,216</u>	<u>51,102</u>	<u>830,114</u>
RIEDC Grant Anticipation Bonds	186,050	184,620	(32,290)	338,380	24,560	313,820
Premium	17,895	12,362	(2,400)	27,857		27,857
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	42,255	42,815	(5,150)	79,920	3,630	76,290
Premium	80	1,600	(45)	1,635		1,635
Revenue bonds - RIRBA	74,615		(14,295)	60,320	17,610	42,710
Net premium/discount and deferred amount on refunding	2,689		(2,098)	591		591
Tobacco Settlement Asset-Backed Bonds	674,830		(5,455)	669,375		669,375
Net premium/discount	(29,539)		1,379	(28,160)		(28,160)
Bonds payable	<u>1,812,508</u>	<u>339,653</u>	<u>(121,027)</u>	<u>2,031,134</u>	<u>96,902</u>	<u>1,934,232</u>
Certificates of Participation (COP)	230,760	6,000	(10,005)	226,755	15,215	211,540
Premium	5,650		(303)	5,347		5,347
Other capital leases	1,704		(1,704)			
Obligations under capital leases	238,114	6,000	(12,012)	232,102	15,215	216,887
Compensated absences	64,648	62,310	(55,537)	71,421	48,763	22,658
Other long-term liabilities	43,681	13,772	(8,101)	49,352	3,687	45,665
	<u>\$ 2,158,951</u>	<u>\$ 421,735</u>	<u>\$ (196,677)</u>	<u>\$ 2,384,009</u>	<u>\$ 184,567</u>	<u>\$ 2,219,442</u>
Business type activities						
Revenue bonds	\$ 202,855	\$ 160,110	\$ (75,780)	\$ 287,185	\$ 7,250	\$ 279,935
Add: bond premium	2,803	2,112	(357)	4,558		4,558
Less: issuance discounts	2,293		(1,441)	852		852
Deferred amounts on refunding	7,078	1,229	(947)	7,360		7,360
	<u>\$ 196,287</u>	<u>\$ 160,993</u>	<u>\$ (73,749)</u>	<u>\$ 283,531</u>	<u>\$ 7,250</u>	<u>\$ 276,281</u>

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, 2006, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 307,348
R.I. Convention Center Authority	39,910
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	310,570
R.I. Economic Development Corporation	65,820
R.I. Turnpike and Bridge Authority	31,000

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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, 2006 was \$120,000,000, \$1,861,192,452 and \$899,119,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 13.

Note 8. 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	\$ (1,014,247)
General Revenue	
Unrestricted balance	38,331
Appropriations carried forward	17,381
Internal Service Funds	29,059
Unrestricted Net Assets	<u>\$ (929,476)</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 Activity is \$1,023,247,000 of such debt, which causes the above deficit.

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Certain portions of net assets were reclassified from unrestricted net assets to restricted net assets due to the implementation of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. The changes are listed below (expressed in thousands).

Reclassified from Unrestricted Net Assets to Restricted Net Assets for	General Fund	Other Governmental Funds	Total Change
Capital Projects	\$ 9,115	\$	\$ 9,115
Nonexpendable-education		988	988
Other	42,994	52	43,046
	<u>\$ 52,109</u>	<u>\$ 1,040</u>	<u>\$ 53,149</u>

In the general fund, other is the balance in restricted receipt accounts where the revenues from fees are restricted as to use by enabling legislation. In other governmental funds, other is the fund balance of special revenue funds that are created by legislation for a particular purpose.

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	\$ 90,887	\$ 63,584	\$ (59,095)	\$ 95,376
Appropriations carried forward				
General revenue	13,489	17,381	(13,489)	17,381
Departmental restricted revenue	34,303	42,994	(34,303)	42,994
Other	7,424	9,115	(7,424)	9,115
Total	<u>\$ 146,103</u>	<u>\$ 133,074</u>	<u>\$ (114,311)</u>	<u>\$ 164,866</u>

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

Appropriations carried forward, 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.

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Note 9. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 996,792	\$ 995,777
General Business Taxes:		
Business Corporation Tax	164,984	165,092
Non-resident Contractor Tax	71	71
Gross Earnings Tax-Public Utilities	96,027	96,108
Income Tax-Financial Institutions	3,989	4,672
Tax on Insurance Companies	52,878	52,870
Tax on Deposits-Banking Institutions	1,494	1,505
Health Care Provider Assessment	11,205	11,206
Nursing Facilities Provider Assessments	35,798	35,785
Sub-total - General Business Taxes	<u>366,446</u>	<u>367,309</u>
Sales and Use Taxes:		
Sales and Use Tax	857,677	858,249
Providence Place Sales Tax	11,486	11,486
Motor Vehicle Tax	49,675	49,675
Rental Vehicle Surcharge	2,951	2,949
Fuel Use Tax on Motor Carriers	31	38
Cigarette Tax	123,844	124,409
Smokeless Tobacco Tax	2,497	2,556
Alcoholic Beverage Import Fees	10,845	10,845
Tax on Mfg. of Beers, Liquors, etc.	25	25
Sub-total - Sales and Use Taxes	<u>1,059,031</u>	<u>1,060,232</u>
Other Taxes:		
Inheritance Tax	39,204	39,424
Simulcast Wagering	2,241	2,241
Dog Racing - Pari-mutuel Betting	1,231	1,231
Dog Racing - Tax on Breakage	18	18
Realty Transfer Tax	14,571	14,571
Mobile Home Conveyance Tax	20	20
Sub-total - Other Taxes	<u>57,285</u>	<u>57,505</u>
Total - General Fund	<u>2,479,554</u>	<u>2,480,823</u>
Intermodal Surface Transportation Fund		
Gasoline	142,410	142,410
Other Governmental Funds	170,997	170,997
Total Taxes	<u>\$ 2,792,961</u>	<u>\$ 2,794,230</u>

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Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2006 are presented below (expressed in thousands):

Fund Financial Statements

	<u>Transfers</u>	<u>Description</u>
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 50,753	Debt service and operating assistance
Nonmajor Funds		
Bond Capital	58,531	Debt service and capital projects
RI Temporary Disability Insurance	1,173	Operating assistance
COPS	541	Art Projects
Business-Type Activities		
Lottery	323,899	Net income
Employment Security	6,163	Operating assistance
ISTEA Fund		
Bond Capital	42,150	Infrastructure
GARVEE		
Intermodal Surface Transportation	51,297	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	59,095	Debt service and capital projects
Economic Policy Council		
General Fund	300	Operating assistance
Total Governmental Activities	<u>593,902</u>	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	971	Reimbursement for State employee's unemployment compensation
Convention Center		
General Fund	16,336	Debt service
Total operating transfers	<u>\$ 611,209</u>	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,098,000 for the fiscal year ended June 30, 2006.

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, 2006:

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<u>Fiscal Year</u> <u>Ending June 30</u>		
2007	\$	10,288
2008		7,882
2009		7,596
2010		7,297
2011		6,129
2012 - 2016		20,546
2017 - 2021		5,809
Total	<u>\$</u>	<u>65,547</u>

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

Note 12. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2006 are listed below (expressed in thousands).

Major funds		
General	\$	21,137
ISTEA		317,032
GARVEE		89,898
Total major funds		<u>428,067</u>
Other governmental funds		106,321
Total encumbrances outstanding	<u>\$</u>	<u>534,388</u>

The primary government is committed at June 30, 2006 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, 2006 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, 2006, the most significant of which is the renovation of the Dunkin' Donuts Center. The Authority's construction related commitments at year-end are \$50,236,000. 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.

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

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Lincoln Park, 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. The Lottery has authorized an additional 1,750 video lottery terminals to be installed at Lincoln Park 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 Lincoln Park has been met.

On November 23, 2005, 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. The Lottery has 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.

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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 \$84,910,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$74,121,000 at June 30, 2006.

A portion of the Rhode Island 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 \$5,200,000 for remediation expenses through June 30, 2006. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$9,545,000.

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 net effect of the changes in assumptions on the provision for landfill closure and postclosure care costs was a decrease in operating income of approximately \$11,300,000 in 2006. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$95,224,000 at June 30, 2006.

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The liability for closure and postclosure care costs at June 30, 2006 of \$52,025,953 is recorded in the statements of net assets, as noted below, with \$39,400,000 remaining to be recognized at June 30, 2006. The detail of the recorded liability (expressed in thousands) is listed below.

	2006
Phase V	\$ 14,091
Phase IV	17,783
Phases II and III	4,086
Phase I	16,066
	<u>\$ 52,026</u>

Based on the estimates of RIRRC engineers, approximately 98% and 27% 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 2007 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 \$31,176,982 at June 30, 2006, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$39,884,000 under various loan programs at June 30, 2006.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2006 remaining commitments on these contracts approximated \$11,210,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$2,936,224 at June 30, 2006.

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, 2006, the amount outstanding is \$736,637, payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

The R.I. Children's Crusade has committed \$1,781,031 toward scholarships for tuition during the 2006/2007 school year. This represents approximately 820 students for an average award of approximately \$2,100 per student. As of June 30, 2006, the estimated value of the

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potential future scholarship costs through the year 2019 is estimated to be between \$4,600,000 and \$16,100,000.

Note 13. Contingencies

Primary Government

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

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

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

The TSR payments are dependent on a variety of factors, which include, but are not limited to:

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

Numerous lawsuits have been filed against tobacco manufacturers, states and public entities some alleging, that the Master Settlement Agreement (MSA) violates the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, Medicaid agreements and state consumer protection laws. If these suits are successful, the MSA

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could be deemed void or unenforceable. Some of the lawsuits seek to prevent the states from receiving any monies under the MSA, and/or to prevent tobacco manufacturers from increasing prices to pay for MSA payments. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to service its debt obligations.

The Non-Participating Manufacturers (NPMs) adjustment would permit the Participating Manufacturers (PM) (Philip Morris, Inc., R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company) to reduce their MSA payments provided that the Original Participating Manufacturers' (OPMs) Market Share Loss exceeds 2% of the OPMs' 1997 market share, that the MSA was a significant factor for the PMs' market share loss, and that the PMs prevailed in proving the states failed to diligently enforce the MSA and the escrow statutes. The State of Rhode Island has adopted the Model Statute (which is a Qualifying Statute under the MSA). "Diligently Enforcement" is not defined in the MSA or the Qualifying Statute.

In 2005, Rhode Island along with the other Settling States and the PMs initiated a Significant Factors Determination (SFD) proceeding to determine if the MSA was a significant fact in the PM's market share loss greater than 2% for calendar year 2003. On March 27, 2006, The Brattle Group made its final determination that the MSA was a significant factor contributing to the market share loss for calendar year 2003.

On March 31, 2006, Philip Morris made its full \$3.4 billion payment, even though it believes that it is entitled to a 2003 NPM adjustment. On March 31, 2006, Lorillard paid approximately \$558 million of its 2006 Annual MSA Payment to the Settling States and deposited the balance of the 2006 MSA Annual Payment, \$108 million into the Disputed Payments Account pending final non-appealable resolution of the 2003 NPM Adjustment. Reynolds American paid approximately \$ 1.3 billion of its Annual MSA Payment for 2006 to Settling States and deposited \$647 million in the Disputed Payment Account pending final non-appealable resolution of the 2003 NPM Adjustment issue. According to the co-chairs of the NAAG Tobacco Committee, in a statement released on April 18, 2006, the Annual Payments paid by Lorillard and Reynolds American to the Settling States constitute about 82% of the amount that was due. The three SPMs from whom the largest payments were due made substantial payments. However, one of the three SPMs paid a portion of its payment to the Disputed Payments Account, and the other two SPMs each withheld a portion of the payment due from them. As required by the MSA, the Settling States have given the PMs 30 day notices prior to initiating proceedings to compel the PMs to make the 2006 Annual Payment without diminution for the 2003 NPM Adjustment. Some Settling States initiated actions in their MSA courts, but the PMs countered with Motions to Compel Arbitration. There is a lack of continuity in the court decisions whether or not the NPM adjustment issues are the jurisdiction of state courts or arbitration. Twenty-four state trial courts have concluded that the 2003 NPM Adjustment is arbitrable. Many of those decisions are pending appeal. In addition, decisions are pending in approximately twenty-seven state courts concerning the 2003 NPM Adjustment issue.

In October 2006, The OPMs filed a Motion to Enforce the Arbitration Provision of the MSA and the SPMs filed for joinder in the OPMs' action. Rhode Island is vigorously

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opposing the Motion but agreed to the SPMs' joinder because of judicial economy and consistency of decision-making.

The Independent Auditor calculated that the PMs payment should be \$6,568,524,931 but the PMs paid the Settling States \$5,754,873,469 for the MSA payment due April 15, 2006. The Corporation received \$41,545,702 for the MSA payment due April 15, 2006. The value of the April 15, 2006 MSA payment in dispute to Rhode Island is approximately \$5,858,291 which includes the ten (10) PMs that either withheld or deposited into a Disputed Escrow Accounts \$39,579,991 related to the 2005 NPM Adjustment.

Future NPM Adjustment remains possible for all future years. Philip Morris, Reynolds American and Lorillard have disputed the Independent Auditors' failure to include an NPM Adjustment for 2004. The resolution of the substance of such disputes could take years. A decision by the PMs to pay the amount of a claimed NPM Adjustment into the Disputed Payments Account or to withhold payment of such an amount pending the resolution of the dispute would have a material adverse effect on the amounts of TSRs available to the Corporation to make Turbo Redemptions and other payments on the bonds during such period. If a PM is determined, with finality, to be entitled to an NPM Adjustment in a future year, the operation of the NPM Adjustment would also have a material adverse effect on the amounts of TSRs available to the Corporation to make Turbo Redemptions and other payments on the bonds.

Rhode Island is working, independently and with other Settling States, to enforce the MSA and related statutes and encourage other tobacco companies to join the MSA and make MSA payments to Rhode Island and the other Settling States. Litigation continues to threaten the ability of the tobacco companies to pay the amounts owed under the MSA including but not limited to, bankruptcy, antitrust allegations, and constitutional challenges which potentially could affect the legality of the MSA and the MSA payments for Rhode Island. Rhode Island continues to work with the other Settling States to defend these challenges.

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.

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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, 2006 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$246,139,574 and \$44,384,250 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,800,000 of the debt on the related economic development revenue bonds in fiscal year 2007.

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 \$5,917,614, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

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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 2006, \$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 2006, the Board of Directors authorized the transfer of \$5,660,746 to supplement amounts available for need-based scholarships under the State's grant program.

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, 2006.

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 8.00 % at June 30, 2006. There was an outstanding balance of \$800,000 as of June 30, 2006. Total interest expense for the fiscal year ended June 30, 2006 was \$12,149.

Note 14. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees 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 System 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 System issues a publicly

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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 System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are 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. 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. Investment transactions are recorded on a trade date basis.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30 which principally include additional investments and partnership distributions. Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. 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	14.84%	31.25%	35.51%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	6.31% and 6.75%		
Annual pension cost	\$145,792	\$3,175	\$2,292
Contributions made - state employees	\$91,254	\$3,175	\$2,292
Contributions made - teachers	\$54,538		
Actuarial valuation date	June 30, 2003	June 30, 2003	June 30, 2003
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	26 years	26 years	26years
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	3% 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	6/30/04	\$ 100,739	100%	\$ 0
	6/30/05	114,923	100%	0
	6/30/06	145,792	100%	0
State Police Retirement Benefits Trust	6/30/04	2,224	100%	0
	6/30/05	2,815	100%	0
	6/30/06	3,175	100%	0
Judicial Retirement Benefits Trust	6/30/04	1,830	100%	0
	6/30/05	2,057	100%	0
	6/30/06	2,292	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. Total expenditures by the institutions for such annuity contracts amounted to \$13,221,928 during the year ended June 30, 2006.

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

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plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2006 totaled \$4,868,363. At January 1, 2006, the most recent valuation date, the total actuarial accrued liability was \$60,329,000 and the actuarial value of assets was \$35,405,271. The Authority contributed 47.98% of its annual pension cost for fiscal year 2006 and had a net pension obligation of \$1,833,401 at June 30, 2006.

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

Note 15. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the cost of healthcare coverage for active employees. This subsidy cost approximately \$7.9 million in FY 2006. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2006, the State contributed 2.25% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2006 were \$9,865,857 net of retirees' contributions for the 5,101 retirees receiving benefits.

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

Note 16. Deferred Compensation

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

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

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

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Note 17. Restatement of Net Assets

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

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities	\$ 195,511	\$ 746,812	\$ 942,323
	<u>\$ 195,511</u>	<u>\$ 746,812</u>	<u>\$ 942,323</u>
Component Units			
RIWRBC	\$ (1,934)	\$ 62	\$ (1,872)
Other	1,762,906		1,762,906
	<u>\$ 1,760,972</u>	<u>\$ 62</u>	<u>\$ 1,761,034</u>

In accordance with GASB Statement No. 34, the State restated its net assets - invested in capital assets, net of related debt, at June 30, 2006. Infrastructure assets of approximately \$1,572 million, before accumulated depreciation of \$824 million, were recorded for fiscal years 1981 through 2001 using historical cost or estimated historical cost amounts. The State also restated net assets - invested in capital assets, net of related debt, for previously recorded construction in progress that did not meet the State's criteria for capitalization.

In addition, a discretely presented component unit of the State restated its beginning net assets to recognize net earnings relating to a prior fiscal period.

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Note 18. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 1,792,938	\$ 900,145	\$ 41,341	\$ 327,075	\$ 1,631	\$ 89,972
Capital assets - nondepreciable			9,387	109,053		332,877
Capital assets - depreciable (net)		17	60,483	242,162	38	218,027
Due from primary government						
Long term debt	1,293,021	793,902	29,819	375,280		364,329
Other liabilities	221,124	34,319	3,929	14,006	15	19,919
Due to primary government				15,447		
Net assets:						
Invested in capital assets, net of related debt	9,951	17	37,600	134,408	38	186,576
Restricted						
Debt service	168,915	71,200	8,931			
Other				96,455		85
Other nonexpendable						
Unrestricted	99,927	724	30,932	42,714	1,616	69,967
Operating expenses	80,528	52,197	5,741	65,567	2,997	37,879
Depreciation, depletion, and amortization	4,053	259	1,641	15,979	19	6,386
Program revenue						
Charges for services	66,100	48,640	12,085	56,425	2,566	59,026
Operating grants and contributions		2,667		(74)		21
Capital grants and contributions				10,913		1,166
Net program (expense) revenue	(18,481)	(1,149)	4,703	(14,282)	(450)	15,948
Interest and investment earnings	22,358	7,443	360	6,914	78	2,483
Miscellaneous	13,305		(9)	9,208		(729)
Payments from primary government				15,256		
Change in net assets	17,182	6,294	5,054	17,096	(372)	17,702
Beginning net assets	261,611	65,647	72,409	256,481	2,026	236,926
Ending net assets	278,793	71,941	77,463	273,577	1,654	256,628

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Other assets	\$ 9,112	\$ 114,960	\$ 25,856	\$ 14,242	\$ 1,273
Capital assets - nondepreciable		8,078	194	2,834	
Capital assets - depreciable (net)	65	61,333	1,086	90,149	
Due from primary government				3,457	
Long term debt		20,448	399		
Other liabilities	433	83,445	1,695	19,748	794
Due to primary government		3,000			
Net assets:					
Invested in capital assets, net of related debt	65	77,967	1,280	92,983	
Restricted					
Debt service		1,687			
Other			18,533		
Other nonexpendable					
Unrestricted	8,679	(2,176)	5,229	(2,049)	479
Operating expenses	1,767	52,849	22,839	79,646	33
Depreciation, depletion, and amortization	33	14,322	231	10,066	
Program revenue					
Charges for services	2,016	68,119	15,306	30,117	126
Operating grants and contributions				13,793	
Capital grants and contributions				13,174	
Net program (expense) revenue	216	948	(7,764)	(32,628)	93
Interest and investment earnings	276	2,758	765	278	19
Miscellaneous	(3,700)	(7,202)		3,098	
Payments from primary government			7,729	34,841	
Change in net assets	(3,208)	(3,496)	730	5,589	112
Beginning net assets	11,952	80,974	24,312	85,345	367
Ending net assets	8,744	77,478	25,042	90,934	479

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	RICWFA	RIIRBA	RIRWBC	RIPTCA	RICCHE
Other assets	\$ 874,918	\$ 1,560	\$ 10,001	\$ 1,716	\$ 8,214
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	43	382	3	6,453	40
Due from primary government					
Long term debt	549,200		12,698	2,627	
Other liabilities	7,572	68	758	898	3,417
Due to primary government				654	
Net assets:					
Invested in capital assets, net of related debt	43	563		4,369	40
Restricted					
Debt service	303,586				
Other				(3,744)	389
Other nonexpendable					
Unrestricted	14,560	1,492	292	442	4,408
Operating expenses	26,623	167	586	3,762	7,866
Depreciation, depletion, and amortization	320	57	107	676	26
Program revenue					
Charges for services	29,439	398	1,258	2,107	4,944
Operating grants and contributions	23,931		(2,408)		
Capital grants and contributions					
Net program (expense) revenue	26,427	174	(1,843)	(2,331)	(2,948)
Interest and investment earnings		142	263	93	216
Miscellaneous				1,006	76
Payments from primary government				3,222	1,409
Change in net assets	26,427	316	(1,580)	1,990	(1,247)
Beginning net assets	291,762	1,739	(1,872)	2,821	6,084
Ending net assets	318,189	2,055	(3,452)	4,811	4,837

	URI	RIC	CCRI	CFSB	Totals
Other assets	\$ 233,436	\$ 48,743	\$ 14,860	\$ 7,016	\$ 4,519,009
Capital assets - nondepreciable	60,704	4,600	1,491		530,220
Capital assets - depreciable (net)	252,596	52,874	47,555	3,631	1,036,937
Due from primary government					3,457
Long term debt	219,778	20,200	11,078	2,251	3,695,010
Other liabilities	48,681	13,870	5,616	5,695	486,002
Due to primary government		9,447	2,536		31,084
Net assets:					
Invested in capital assets, net of related debt	173,105	42,993	43,783	3,165	808,946
Restricted					
Debt service					554,319
Other	31,300	9,209	5,543	597	158,367
Other nonexpendable	61,356	13,145			74,501
Unrestricted	12,516	(2,647)	(4,650)	(1,061)	281,394
Operating expenses	353,913	109,089	91,516	51,136	1,046,701
Depreciation, depletion, and amortization	16,443	4,026	2,517	269	77,430
Program revenue					
Charges for services	261,854	62,709	45,020	10,809	779,064
Operating grants and contributions		5,763	466		44,159
Capital grants and contributions	21,747	4,067	2,575		53,642
Net program (expense) revenue	(86,755)	(40,576)	(45,972)	(40,596)	(247,266)
Interest and investment earnings	3,251	1,500	420	22	49,639
Miscellaneous	22,886	419		172	38,630
Payments from primary government	82,378	44,069	45,445	41,241	275,590
Change in net assets	21,760	5,412	(107)	839	116,493
Beginning net assets	256,517	57,288	44,783	1,862	1,761,034
Ending net assets	278,277	62,700	44,676	2,701	1,877,527

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Significant transactions between primary government and component units		
	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ 7,729	Operating assistance
R.I. Economic Development Corporation	10,989	Operating and capital assistance
R.I. Resource Recovery Corporation	(7,500)	Surplus
University of Rhode Island	82,492	Educational assistance
Rhode Island College	44,069	Educational assistance
Community College of Rhode Island	45,445	Educational assistance
Central Falls School District	41,241	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	35,759	Operating assistance
Capital Projects		
University of Rhode Island	28,221	Construction, improvement or purchase of assets
Rhode Island College	5,684	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 294,129</u>	

Note 19. Risk Management

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

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

The State also has a contract with an insurance company to provide health care benefits to 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, 2006 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Fund				
Liability for unpaid claims	\$ 15,767	\$ 210,580	\$ 207,959	\$ 18,388

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

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that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 20. Other Information

A. Reconciliation of government-wide and fund financial statements

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds." The details of this difference are as follows (expressed in thousands).

Capital assets	\$ 3,759,584
Accumulated depreciation	<u>(1,353,878)</u>
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	<u>\$ 2,405,706</u>

Another element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

Compensated absences	\$ (71,421)
Bonds payable	(2,006,861)
Net premium/discount and deferred amount on refunding	(24,272)
Cost of issuance	9,518
Obligations under capital leases	(226,452)
Premium	(5,650)
Cost of issuance	1,295
Interest payable	(24,256)
Other Liabilities	<u>(49,352)</u>
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	<u>\$ (2,397,451)</u>

Another element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this difference are as follows (expressed in thousands).

Receivables	\$ 8,399
Due from component units	25,598
Deferred revenue	<u>42,850</u>
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	<u>\$ 76,847</u>

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Another element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

Internal service fund net assets	\$	31,767
Capital assets		(7,740)
Accumulated depreciation		4,817
Obligations under capital leases		215
		215
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	\$	29,059

Since internal service funds often share costs of a capital asset acquisition and related debt with their general fund counterpart, the internal service funds were converted to the governmental basis to avoid duplication in the government-wide financial statements.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

Capital outlay	\$	308,051
Depreciation expense		(106,899)
Loss on disposal of assets		(675)
		(675)
Net adjustment to reconcile net changes in fund balances-total governmental funds to changes in net assets of governmental activities	\$	200,477

Another element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

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Compensated absences	\$	(6,773)
Debt service		
Principal		120,653
Interest and other charges		624
Bond proceeds		(320,820)
Deferral of premium		(16,200)
Amortization of premium		5,999
Deferral of issuance costs		2,341
Amortization of issuance costs		(646)
Proceeds from issuance of Certificates of Participation		(6,000)
Amortization of premium		303
Deferral of issuance costs		50
Amortization of issuance costs		0
		0

Net adjustment to reconcile net changes in fund balances-total governmental funds to changes in net assets of governmental activities	\$	(220,469)
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Another element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

Program expenses related to long-term liabilities	\$	(5,174)
Recognition of deferred revenue and refunds payable		
Program revenue		1,756
Operating grant revenue		7,159
General revenue- taxes		584
Recognition of long-term receivable		
General revenue-misc		7,497
		7,497

Net adjustment to reconcile net changes in fund balances-total governmental funds to changes in net assets of governmental activities	\$	11,822
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Another element of that reconciliation explains that "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." The details of this difference are as follows (expressed in thousands).

Internal service funds change in net assets	\$	11,787
Capital outlay		(319)
Depreciation expense		676
Debt service principal		(517)
		(517)

Net adjustment to reconcile net changes in fund balances-total governmental funds to changes in net assets of governmental activities	\$	11,627
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B. 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	\$ 16,991	\$ 2,343	\$ 19,334	\$ (16,511)	\$ 2,823
Loans to other funds	5,572		5,572	(5,572)	
Total assets	<u>\$ 22,563</u>	<u>\$ 2,343</u>	<u>\$ 24,906</u>	<u>\$ (22,083)</u>	<u>\$ 2,823</u>
Liabilities					
Due to other funds	\$ 15,244	\$ 1,267	\$ 16,511	\$ (16,511)	\$
Loans from other funds	22	5,550	5,572	(5,572)	
Total liabilities	<u>\$ 15,266</u>	<u>\$ 6,817</u>	<u>\$ 22,083</u>	<u>\$ (22,083)</u>	<u>\$</u>
Other financing sources (uses):					
Operating transfers in	\$ 593,902	\$	\$ 593,902	\$ (281,147)	\$ 312,755
Operating transfers out	(280,176)	(971)	(281,147)	281,147	
Total other financing sources (uses):	<u>\$ 313,726</u>	<u>\$ (971)</u>	<u>\$ 312,755</u>	<u>\$</u>	<u>\$ 312,755</u>
	Total		Total	Eliminations	Internal
	Business-type				Balances
	Activities				
Nonoperating revenues (expenses):					
Operating transfers in	\$ 17,307	\$	\$ 17,307	\$ (17,307)	\$
Operating transfers out	(330,062)		(330,062)	17,307	(312,755)
Total nonoperating revenues (expenses):	<u>\$ (312,755)</u>	<u>\$</u>	<u>\$ (312,755)</u>	<u>\$</u>	<u>\$ (312,755)</u>

Note 21. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation 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 Rhode Island Student Loan Authority (RISLA) and the Rhode Island 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.

**State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006**

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2006 were as follows:

Guaranteed loans outstanding at June 30, 2006	\$446,953,000
Loans guaranteed during the year	136,517,000
Guarantee claims paid during the year	15,026,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for advances totaling \$35,935,000 made during the years ended June 30, 1998 through 2006 been made.

Note 22. Subsequent Events

Primary Government

On July 1, 2006, the Division of Lotteries of the Rhode Island Department of Administration became the State Lottery Division of the State of Rhode Island Department of Revenue.

On September 28, 2006, the State of Rhode Island issued \$95,515,000 in General Obligation Bonds with interest ranging from 4.00% to 5.00% with maturity dates of February 2007 through August 2026. This issuance includes a \$74,835,000 Consolidated Capital Development Loan of 2006, Refunding Series A to advance refund \$72,930,000 of the State's General Obligation Bonds. The remaining \$20,680,000 will be utilized by the State to finance capital projects.

On October 24, 2006, the State of Rhode Island issued \$98,105,000 in General Obligation Bonds with interest ranging from 4.25% to 5.00% with maturity dates of November 2007 through November 2025.

On December 21, 2006, the State of Rhode Island issued \$120,000,000 of General Obligation Tax Anticipation Notes due June 29, 2007.

In November 2005, the Employees Retirement System (System) obtained title to commercial real estate located in Providence, Rhode Island as a result of bankruptcy foreclosure proceedings in the U.S. Bankruptcy Court. The System held a first lien on the commercial real estate owned by an obligor of a mortgage loan receivable previously held as a plan specific investment. In August 2006, the System sold the real estate for \$20

State of Rhode Island and Providence Plantations
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June 30, 2006

million. The mortgage loan receivable was guaranteed by the R. I. Economic Development Corporation (RIEDC) to the extent of \$3 million. The System has requested payment of the guarantee by RIEDC to the extent of its incurred loss related to the default on the mortgage note receivable and liquidation of the real estate obtained through foreclosure. Payment of the guarantee by RIEDC is dependent upon appropriation by the Rhode Island General Assembly.

Component Units

Subsequent to June 2006, the R.I. Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$3,740,000.

On September 13, 2006 the R.I. Housing and Mortgage Finance Corporation issued \$70,000,000 of Homeownership Opportunity Bonds.

On November 14, 2006 the R.I. Housing and Mortgage Finance Corporation issued \$68,085,000 of Homeownership Opportunity Bonds.

On or about December 21, 2006, the R.I. Housing and Mortgage Finance Corporation issued \$26,785,000 of 2006 Series A-1 Housing Bonds.

On or about December 21, 2006, the R.I. Housing and Mortgage Finance Corporation issued \$4,660,000 of 2006 Series A-2T Housing Bonds.

On December 21, 2006 the R.I. Clean Water Finance Agency issued \$57,795,000 in Series 2006 A Water Pollution Control Revolving Fund Revenue Bonds.

On December 21, 2006 Narragansett Bay Commission closed on a \$30,000,000 loan with the R.I. Clean Water Finance Agency.

In July 2006, the R.I. Student Loan Authority issued \$30,000,000 2006 Series I, \$30,000,000 2006 Series 2 tax-exempt auction rate and \$40,000,000 2006 Series 3 tax-exempt fixed rate Student Loan Program Revenue Bonds. Proceeds of this issuance will be used to originate and purchase eligible student loans.

Subsequent to June, 30, 2006 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.

On July 27, 2006, the R.I. Children's Crusade for Higher Education (RICCE) entered into an agreement with a financial institution to increase the existing line of credit from \$850,000 to \$1,200,000. The increase in the line of credit was necessary to provide the Crusade with the cash flow for the GEARUP program until reimbursement of program expenses is received. The Crusade has been notified by the U.S. Department of Education that \$2,726,514 will be available to the State of Rhode Island, the fiscal agent of the

State of Rhode Island and Providence Plantations
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GEARUP program, on September 1, 2006 and should be received by the Crusade shortly thereafter. It is the Crusade's intent to pay the outstanding balance on the line of credit upon reimbursement by GEARUP for expenses paid during the fiscal year ended June 30, 2006.

Effective July 1, 2006, the R.I. Underground Storage Tank Financial Responsibility Fund and all its assets were transferred to the R.I. Department of Environmental Management pursuant to the enactment of Chapter 06-246 of the Rhode Island Public Laws. The R.I. Department of Environmental Management has assumed all responsibilities of the Fund and all activity from July 1, 2006.

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
General Revenues:				
Personal Income Tax	\$ 1,033,495	\$ 994,361	\$ 996,792	\$ 2,431
General Business Taxes:				
Business Corporations	109,525	158,000	165,054	7,054
Public Utilities Gross Earnings	90,000	95,000	96,027	1,027
Financial Institutions	100	(300)	3,989	4,289
Insurance Companies	58,078	53,500	52,878	(622)
Bank Deposits	1,640	1,600	1,494	(106)
Health Care Provider Assessment	49,300	48,000	47,002	(998)
Sales and Use Taxes:				
Sales and Use	887,888	875,000	869,163	(5,837)
Motor Vehicle	49,211	48,800	52,626	3,826
Motor Fuel	1,000	1,200	31	(1,169)
Cigarettes	126,300	126,600	126,341	(259)
Controlled Substances	11,400	10,700	10,870	170
Other Taxes:				
Inheritance and Gift	31,700	32,000	39,204	7,204
Racing and Athletics	4,020	3,500	3,490	(10)
Realty Transfer Tax	14,900	15,300	14,592	(708)
Total Taxes	<u>2,468,557</u>	<u>2,463,261</u>	<u>2,479,553</u>	<u>16,292</u>
Departmental Revenue	<u>312,587</u>	<u>286,058</u>	<u>287,315</u>	<u>1,257</u>
Total Taxes and Departmental Revenue	<u>2,781,144</u>	<u>2,749,319</u>	<u>2,766,868</u>	<u>17,549</u>
Other Sources				
Gas Tax Transfer	4,760	4,760	4,322	(438)
Other Miscellaneous	18,950	33,241	31,163	(2,078)
Lottery	350,500	332,500	323,899	(8,601)
Unclaimed Property	10,199	15,400	14,243	(1,157)
Total Other Sources	<u>384,409</u>	<u>385,901</u>	<u>373,627</u>	<u>(12,274)</u>
Total General Revenues	<u>3,165,553</u>	<u>3,135,220</u>	<u>3,140,495</u>	<u>5,275</u>
Federal Revenues	1,756,638	1,799,324	1,713,287	(86,037)
Restricted Revenues	108,785	113,706	105,765	(7,941)
Other Revenues	135,807	120,890	110,253	(10,637)
Total Revenues	<u>5,166,783</u>	<u>5,169,140</u>	<u>5,069,800</u>	<u>(99,340)</u>
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,775	1,886	1,747	139
Federal Funds Total	323	353	290	63
** Restricted Receipts	100	147	168	(21)
Total-Central Management	<u>2,198</u>	<u>2,385</u>	<u>2,205</u>	<u>180</u>
Legal Services				
Legal Support/DOT				
General Fund Total	2,164	2,147	2,804	(657)
Total-Legal Services	<u>2,164</u>	<u>2,147</u>	<u>2,804</u>	<u>(657)</u>

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Accounts & Control				
General Revenue	4,265	4,404	4,522	(118)
Total-Accounts & Control	<u>4,265</u>	<u>4,404</u>	<u>4,522</u>	<u>(118)</u>
Budgeting				
General Revenue Total	3,058	3,029	2,881	148
Total-Budgeting	<u>3,058</u>	<u>3,029</u>	<u>2,881</u>	<u>148</u>
Purchasing				
General Revenue Total	2,140	2,299	2,224	75
Total-Purchasing	<u>2,140</u>	<u>2,299</u>	<u>2,224</u>	<u>75</u>
Auditing				
General Revenue Total	1,802	1,672	1,613	59
Total-Auditing	<u>1,802</u>	<u>1,672</u>	<u>1,613</u>	<u>59</u>
Human Resources				
General Revenue Total	6,619	6,574	6,303	271
Federal Funds Total				
Total-Human Resources	<u>6,619</u>	<u>6,574</u>	<u>6,303</u>	<u>271</u>
Personnel Appeal Board				
General Revenue Total	94	91	80	11
Total-Personnel Appeal Board	<u>94</u>	<u>91</u>	<u>80</u>	<u>11</u>
Taxation				
Motor Fuel Tax Evasion Program	56	34	69	(35)
Temporary Disability Insurance	806	845	746	99
General Revenue Total	18,224	18,210	18,105	105
Federal Funds Total	1,094	1,145	1,048	97
Restricted Receipts Total	838	769	677	92
Total-Taxation	<u>21,018</u>	<u>21,003</u>	<u>20,645</u>	<u>358</u>
Registry of Motor Vehicles				
General Revenue Total	16,381	16,961	17,018	(57)
Federal Funds Total	247	862	481	381
Restricted Receipts Total	17	16	15	1
Total-Registry of Motor Vehicles	<u>16,645</u>	<u>17,839</u>	<u>17,514</u>	<u>325</u>
Central Services				
Restricted Receipts Total			488	(488)
Total-Central Services			<u>488</u>	<u>(488)</u>
Facilities Management				
General Revenue Total	12,134	14,029	12,758	1,271
Federal Fund Total	17,071	18,352	20,045	(1,693)
Restricted Receipts	1,522	1,068	142	926
Total-Facilities Management	<u>30,728</u>	<u>33,449</u>	<u>32,945</u>	<u>504</u>

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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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Capital Projects & Property Management				
General Revenue Total	2,737	3,282	3,201	81
Total-Capital Project & Property Management	2,737	3,282	3,201	81
Office of Library & Information Service				
Federal Funds Total			7	(7)
Total-Office of Library & Information Service			7	(7)
Information Technology				
General Revenue Total	3,033	6,334	4,564	1,770
Federal Funds Total		428	197	231
Total-Information Technology	3,033	6,762	4,762	2,000
Library Program				
General Revenue Total	1,007	1,007	1,006	1
Federal Funds Total	1,397	1,397	1,140	257
Restricted Receipts	8	5		5
Total-Library Program	2,412	2,408	2,146	262
Statewide Planning				
General Revenue Total	1,685	5,621	5,087	534
Federal Funds Total	5,045	7,191	5,808	1,383
Federal Highway - PL Systems	1,478	1,833	1,402	431
Air Quality Modeling	21	21	9	12
Total ISTE A Funds	1,499	1,854	1,411	443
Total-Statewide Planning	8,228	14,666	12,306	2,360
General				
RICAP-State House Terrace/South Stairs		22	(2)	24
RICAP-Pastore Center Sewer Improvements	907	1,077	898	179
RICAP-Chapin Health Laboratory	157	57	47	10
RICAP-Cranston Street Armory	978	3,101	2,769	332
RICAP-Cannon Building	160	60	30	30
RICAP-Veterans' Auditorium	1,150	1,150	537	613
RICAP-Old State House	424	30	11	19
RICAP-State Office Building	439	439	22	417
RICAP-Veterans Office Building	404	404	404	
RICAP-Old Colony House	254	120	1	119
RICAP-Washington County Government Center	265	265	26	239
RICAP-State House Renovations - Phase II	1,053	1,053	640	413
RICAP-William Powers Building	543	993	685	308
RICAP-State House Renovations-Phase III	153	153	148	5
RICAP-Powers Building Tech Infrastructure	488			
RICAP-Environmental Compliance	481	236	244	(8)
RICAP-Fox Point Hurricane Barrier	50	50	50	
RICAP-Bio Tech Training Lab-Planning Funds	200	200	114	86
RICAP-Fire Code Compliance State Building	1,050	50	13	37
Eisenhower House	50	50	33	17
RICAP-Elderly Affairs One Stop	25	25	14	11
McCoy Stadium Repair	1,480			
RICAP-Lead Mitigation-Group Homes	272			

State of Rhode Island and Providence Plantations
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	Original Budget	Final Budget	Actual	Variance
Information Processing Rotary Account-Overhead	870	870	870	
Property Tax Relief Credit	10,000			
Rhode Island Sports Foundation	300	300	300	
Miscellaneous Grants and Payments	355	355	355	
Torts-Court Awards	400	400	877	(477)
Asset Inventory	99	99	35	64
State Employees/Teachers Retiree Health	7,850	8,549	8,326	223
Governor's Contingency Fund	1,679	679	350	329
Economic Development Corporation Grant	7,342	7,167	7,159	8
Slater Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	300	
Housing Resources Commission	3,791			
Neighborhood Opportunities Program	97	97	97	
Motor Vehicle Excise Tax Payment	112,286	117,775	117,649	126
Property Valuation	1,212	1,212	932	280
General Revenue Sharing Program	65,348	64,974	64,974	
Payment in Lieu of Tax Exempt Properties	26,975	26,975	26,975	
Distressed Communities Relief Program	9,967	10,640	10,640	
Resource Sharing and State Library Aid	8,441	8,441	8,391	50
Library Construction Aid	2,652	2,652	2,634	18
Domestic Partners IRS Penalty		475	475	
Federal Funds	256	256	199	57
Restricted Receipts Total	1,117	1,283	704	579
Total-General	275,319	266,034	261,927	4,107
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	1,974	1,927	1,927	
RICAP-DEM-Clean Water Finance Agency	2,798	3,010	3,010	
RICAP-DEM-Wastewater Treatment	4,162	4,190	4,190	
RICAP-DEM-Debt Service-Recreation	10,233	10,503	10,503	
RIPTA Debt Service	685	650	650	
RICAP-MHRH Com Services	5,751	5,777	5,777	
RICAP-MHRH Comm. Mental Health	2,247	2,380	2,380	
Transportation Debt Service	31,597	36,807	36,615	192
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	363	356	363	(7)
COPS-DLT Building-Reed Act	37	26	8	18
Debt-URI Education and General	1,089			
Debt-URI Housing Loan Funds	1,752			
Debt-URI Dining Services	267			
Debt-URI Health Services	126			
Debt-W. Alton Jones Service	113			
Debt-URI Memorial Union	98			
Debt-URI Sponsored Research (Indirect Cost)	101			
Debt-RIC Education and General	297			
Debt-RIC Housing	568			
Debt-RIC Student Center and Dining	178			
Debt-RIC Student Union	217			
Debt-CCRI Bookstore	177			
Investment Receipts-Bond Funds			528	(528)
RICAP-DEM Hazardous Waste	1,116	2,452	2,452	

Exhibit A-60

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
RICAP-Water Resources Board	2,157	2,294	2,294	
RICAP-University of Rhode Island-Debt Service	5,644			
RICAP-Rhode Island College-Debt Service	515			
RICAP-Comm. College Of Rhode Island-Debt Svc.	1,438			
RICAP-Third Rail/Quonset Point debt Service	1,367			
Debt Service Payments	83,190	71,414	72,644	(1,230)
Federal Funds	1,124	1,178	1,157	21
Restricted Receipts Fund	6,649	1,028	360	668
Total-Debt Service Payments	168,073	144,038	144,920	(882)
Sheriffs				
General Revenue Total	17,023	18,439	18,585	(146)
Total Sheriffs	17,023	18,439	18,585	(146)
Retirement Alternative				
Pay Plan Reserve General Revenue	(1,658)			
Other Funds Total	(303)			
Federal Funds Total	(667)			
Restricted Receipts	(105)			
Total-Retirement Alternative	(2,734)			
General Revenue Fund Total-Dept Of Admin	438,635	432,359	429,484	2,875
Federal Grant Fund Total-Dept of Admin	25,888	31,160	30,373	787
Restricted Fund Total-Dept of Admin	10,145	4,315	2,553	1,762
Other Fund Total-Dept of Admin	90,152	82,687	79,668	3,019
Total-Department of Administration	564,821	550,521	542,078	8,443
Department of Business Regulation				
Central Management				
General Revenue Total	1,733	1,830	1,629	201
Total-Central Management	1,733	1,830	1,629	201
Banking Regulation				
General Revenue Total	1,759	1,849	1,699	150
Total-Banking Regulation	1,759	1,849	1,699	150
Security Regulation				
General Revenue Total	817	876	844	32
Total-Securities Regulation	817	876	844	32
Commercial Licensing and Regulation				
General Revenue Total	1,254	1,156	1,133	23
Restricted Revenue Total	100	100	17	83
Total-Commercial Licensing and Regulation	1,354	1,256	1,151	105
Racing and Athletics				
General Revenue Total	417	508	476	32
Total-Racing and Athletics	417	508	476	32

State of Rhode Island and Providence Plantations
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General Fund
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Insurance Regulation				
General Revenue Total	4,416	4,170	3,846	324
Restricted Receipts Total	708	694	652	42
Total-Insurance Regulation	5,124	4,864	4,497	367
Board of Accountancy				
General Revenue Total	139	150	142	8
Total-Board of Accountancy	139	150	142	8
General Revenue Fund Total-DBR	10,535	10,540	9,768	772
Restricted Fund Total-DBR	808	794	669	125
Total-Department of Business Regulation	11,344	11,334	10,437	897
Department of Labor and Training				
Central Management				
General Revenue Total	423	271	232	39
Director of Workers' Compensation	836	896	557	339
Total-Central Management	1,260	1,167	788	379
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		557	467	90
Reed Act-Rapid Job Development	1,650	1,014	705	309
Reed Act-Workforce Development	5,534	5,385	4,617	768
General Revenue Total	673	293	293	
Federal Funds Total	14,135	19,563	16,234	3,329
Restricted Receipts	7,963	8,452	1,979	6,473
Total-Workforce Development Services	29,956	35,264	24,296	10,968
Workforce Regulation and Safety				
General Revenue Total	3,076	3,198	3,268	(70)
Total-Workforce Regulation and Safety	3,076	3,198	3,268	(70)
Income Support				
General Revenue Total	2,942	3,127	3,156	(29)
Federal Funds Total	14,434	16,288	17,597	(1,309)
Restricted Receipt Total	1,772	1,593	1,598	(5)
Total-Income Support	19,148	21,009	22,351	(1,342)
Injured Workers Services				
Restricted Receipts Total	10,113	11,647	11,222	425
Total-Injured Workers Services	10,113	11,647	11,222	425

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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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Labor Relations Board				
General Revenue Total	328	437	376	61
Total-Labor Relations Board	328	437	376	61
General Revenue Fund Total-DLT	7,442	7,326	7,325	1
Federal Grants Fund Total-DLT	28,569	35,851	33,831	2,020
Restricted Fund Total-DLT	20,685	22,588	15,356	7,232
Other Fund Total-DLT	7,185	6,956	5,789	1,167
Total-Department of Labor and Training	63,880	72,721	62,301	10,420
General Assembly				
General Revenue Fund Total-Gen Assembly	31,408	32,612	29,355	3,257
Restricted Fund Total-Gen Assembly	1,272	1,352	1,352	
Total-General Assembly	32,681	33,963	30,707	3,256
Office of the Lieutenant Governor				
General Revenue Total	918	959	900	59
Total-Office of the Lieutenant Governor	918	959	900	59
Department of State Administration				
General Revenue Total	1,614	1,820	1,740	80
Total-Administration	1,614	1,820	1,740	80
Corporations				
General Revenue Total	1,555	1,749	1,815	(66)
Total-Corporation	1,555	1,749	1,815	(66)
State Archives				
General Revenue Total	96	100	101	(1)
Federal Funds Total		23	5	18
Restricted Receipts total	486	475	459	16
Total-State Archives	582	597	565	32
Elections				
General Revenue Total	380	470	474	(4)
Federal Funds Total	982	6,279	6,491	(212)
Total-Elections	1,362	6,749	6,966	(217)
State Library				
General Revenue Total	699	702	706	(4)
Total-State Library	699	702	706	(4)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Office of Public Information				
General Revenue Total	456	405	382	23
Total-Office of Public Information	456	405	382	23
General Revenue Fund Total-Sec of State	4,799	5,246	5,218	28
Federal Grant Fund Total-Sec of State	982	6,301	6,496	(195)
Restricted Fund Total-Sec of State	486	475	459	16
Total-Department of State	6,267	12,022	12,173	(151)
Treasury Department				
Treasury				
General Revenue Total	2,588	2,509	2,495	14
Federal Funds Total	269	279	211	68
Restricted Receipts Total	10	10	10	
Total-Treasury	2,866	2,798	2,706	92
State Retirement System				
Administrative Expenses-State Retirement System	4,522	6,644	4,760	1,884
Retirement-Treasury Investment Operations	703	717	933	(216)
Total-State Retirement System	5,225	7,361	5,693	1,668
Unclaimed Property				
Restricted Receipts Total	18,394	25,175	26,775	(1,600)
Total-Unclaimed Property	18,394	25,175	26,775	(1,600)
RI Refunding Bond Authority				
General Revenue Total	53	55	34	21
Total-RI Refunding Bond Authority	53	55	34	21
Crime Victim Compensation Program				
General Revenue Total	258	239	220	19
Federal Funds Total	1,230	2,059	384	1,675
Restricted Receipts Total	1,744	1,665	1,376	289
Total-Crime Victim Compensation Program	3,232	3,963	1,979	1,984
General Revenue Fund Total-Treasury	2,899	2,803	2,749	54
Federal Grant Fund Total-Treasury	1,499	2,338	594	1,744
Restricted Fund Total-Treasury	20,148	26,850	28,150	(1,300)
Other Fund Total-Treasury	5,224	7,361	5,693	1,668
Total-Treasury Department	29,771	39,351	37,186	2,165
Boards For Professional Design				
General Revenue Total	360	381	381	
General Revenue Fund Total-Board of Professional Design	360	381	381	
Total-Boards For Professional Designs-PL	360	381	381	

Exhibit A-62

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Board of Elections				
General Revenue Total	1,436	1,434	1,440	(6)
Federal Funds Total	1,087	1,029	953	76
Total-Board Of Elections	2,523	2,463	2,393	70
Rhode Island Ethics Commission				
General Revenue Total	1,207	1,191	1,156	35
General Revenue Fund Total-RI Ethics Commission	1,207	1,191	1,156	35
Total-Rhode Island Ethics Commission	1,207	1,191	1,156	35
Office of Governor				
General Revenue Total	4,607	4,771	4,763	8
Restricted Receipts		104	118	(14)
Other Fund Total	76	85	49	36
Total-Office of the Governor	4,683	4,960	4,930	30
Public Utilities Commission				
General Revenue Total	710	694	657	37
Federal Funds Total	75	84	76	8
Restricted Receipts Total	5,635	5,822	4,446	1,376
Total-Public Utilities Commission	6,420	6,599	5,179	1,420
Rhode Island Commission on Women				
General Revenue Total	87	92	89	3
Total-Rhode Island Commission on Women	87	92	89	3
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	8,238	8,500	8,447	53
Federal Funds Total	3,998	3,994	3,484	510
Total-Central Management	12,236	12,494	11,931	563
Children's Behavioral Health Services				
RICAP-Groden Center-Mt. Hope	80	80		80
General Revenue Total	30,777	34,589	33,833	756
Federal Funds Total	28,949	36,466	34,986	1,480
Total-Children's Behavioral Health Services	59,806	71,135	68,819	2,316
Juvenile Correctional Services				
RICAP-RI Training School-Girls Facilities	2,175	700	492	208
RICAP-Community Facilities-Training	725			
RICAP-NAFI Center	50			
General Revenue Total	30,020	32,067	30,773	1,294
Federal Funds Total	2,919	3,429	3,821	(392)
Restricted Receipts Total	5	645	189	456
Total-Juvenile Correctional Services	35,893	36,842	35,276	1,566

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Child Welfare				
General Revenue Total	95,443	92,701	94,712	(2,011)
Federal Funds Total	71,291	73,382	72,703	679
Restricted Receipts Total	1,624	1,639	1,844	(205)
RICAP-Fire Codes Upgrade	500	50	63	(13)
Total-Child Welfare	168,858	167,772	169,323	(1,551)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Higher Education Incentive Grants	200	200	200	
General Revenue Fund Total-DCYF	164,678	168,056	167,965	91
Federal Grant Fund Total-DCYF	107,156	117,271	114,995	2,276
Restricted Fund Total-DCYF	1,628	2,285	2,033	252
Other Fund Total-DCYF	3,530	830	555	275
Total-Department of Children, Youth, and Families	276,993	288,442	285,549	2,893
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,760	4,760	4,757	3
General Revenues Total	15,436	15,327	15,628	(301)
Safety and Care of the Elderly	1	1	1	
RIPAE	5,657	6,551	6,495	56
Federal Funds Total	13,911	15,458	15,196	262
Restricted Revenue	3,325	2,400	2,362	38
General Revenue Fund Total-Dept of Elderly Affairs	21,094	21,879	22,124	(245)
Federal Grant Fund Total-Dept of Elderly Affairs	13,911	15,458	15,196	262
Other Fund Totals-Dept of Elderly Affairs	4,760	4,760	4,757	3
Restricted Receipts Total-Dept of Elderly Affairs	3,325	2,400	2,362	38
Total-Department of Elderly Affairs	43,089	44,497	44,440	57
Department of Health				
Central Management				
General Revenues Total	7,067	7,837	7,743	94
Federal Funds Total	4,292	7,016	3,696	3,320
Restricted Receipts Total	3,795	4,088	4,033	55
Total-Central Management	15,154	18,941	15,472	3,469
State Medical Examiner				
General Revenue Total	1,830	1,872	1,897	(25)
Federal Funds Total	138	226	144	82
Total-State Medical Examiners	1,968	2,098	2,042	56
Family Health				
General Revenues Total	2,214	2,158	2,205	(47)
Federal Funds Total	30,855	30,504	28,841	1,663
Restricted Receipts Total	5,707	6,272	5,131	1,141
Total-Family Health	38,776	38,934	36,177	2,757

Exhibit A-63

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Health Services Regulation				
General Revenues Total	5,007	5,175	4,994	181
Federal Funds Total	5,730	5,671	5,437	234
Restricted Receipts Total	380	375	343	32
Total-Health Services Regulation	11,117	11,221	10,774	447
Environmental Health				
General Revenue Total	4,696	4,551	4,418	133
Federal Funds Total	4,415	4,715	3,546	1,169
Restricted Receipts Total	1,606	1,909	1,482	427
Total-Environmental Health	10,717	11,175	9,446	1,729
Health Laboratories				
General Revenue Total	6,000	6,128	6,234	(106)
Federal Funds Total	1,986	2,892	3,139	(247)
Total-Health Laboratories	7,987	9,020	9,374	(354)
Disease Prevention and Control				
General Revenue Total	5,060	9,745	9,832	(87)
Federal Funds Total	19,387	19,921	15,065	4,856
Restricted Receipts Total	91		(17)	17
Child Safety Program	87		(2)	2
Walkable Communities Initiative	28	30	24	6
Total-Disease Prevention and Control	24,653	29,697	24,902	4,795
General Revenue Fund Total-Health	31,874	37,467	37,325	142
Federal Grant Fund Total-Health	66,803	70,945	59,869	11,076
Restricted Fund Total-Health	11,580	12,645	10,972	1,673
Other Fund Total-Health	115	30	21	9
Total-Department of Health	110,372	121,086	108,187	12,899
Department of Human Services				
Central Management				
General Revenue Total	8,890	8,732	7,988	744
Federal Funds Total	6,649	6,667	4,463	2,204
Restricted Receipts Total	2,710	1,966	1,999	(33)
Total-Central Management	18,249	17,365	14,451	2,914
Child Support Enforcement				
General Revenue Total	3,464	3,614	3,523	91
Federal Fund Total	6,998	7,323	6,921	402
Total-Child Support Enforcement	10,462	10,937	10,444	493
Individual and Family Support				
RICAP-Blind Vending Facilities	50	50	50	
General Revenue Total	22,792	23,363	22,384	979
Federal Funds Total	54,906	54,795	49,754	5,041
Restricted Receipts Total	89	92	92	
Total-Individual and Family Support	77,836	78,300	72,280	6,020

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Veterans' Affairs				
General Revenue Total	17,892	18,655	18,325	330
Federal Funds Total	6,958	6,662	5,339	1,323
Restricted Receipts Total	2,398	2,625	619	2,006
Total-Veterans' Affairs	27,248	27,942	24,283	3,659
Health Care Quality, Financing and Purchases				
General Revenue Total	29,942	21,174	21,233	(59)
Federal Funds Total	43,428	44,349	35,640	8,709
Restricted Receipts Total	401	540	438	102
Total-Health Care Quality, Financing & Purchase	73,770	66,063	57,311	8,752
Medical Benefits				
General Revenue				
Managed Care	199,614	182,922	176,686	6,236
Hospital	113,646	116,662	121,929	(5,267)
Other	62,855	65,943	74,216	(8,273)
Pharmacy	67,454	65,162	50,793	14,369
Special Education	16,632			
Nursing Facilities	137,118	135,024	135,532	(508)
General Revenue Total	597,319	565,713	559,157	6,556
Federal Funds				
Managed Care	245,194	246,147	240,578	5,569
Hospitals	133,566	135,838	134,544	1,294
Nursing Facilities	165,493	162,976	162,965	11
Other	77,982	79,595	92,886	(13,291)
Pharmacy	80,340	55,438	39,180	16,258
Special Education	20,068	20,068	20,130	(62)
Federal Funds Total	722,643	700,062	690,283	9,779
Restricted Receipts Total	15	15	11	4
Total-Medical Benefits	1,319,977	1,265,790	1,249,450	16,340
Supplemental Security Income Program				
General Revenue Total	28,195	27,610	27,037	573
Total-Supplemental Security Income Program	28,195	27,610	27,037	573
Family Independence Program				
TANF/Families Independence Program	13,317	12,846	16,162	(3,316)
Child Care	48,726	42,194	39,068	3,126
Federal Funds Total	82,864	89,801	89,801	
Total-Family Independence Program	144,907	144,841	145,031	(190)

Exhibit A-64

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
State Funded Programs				
General Public Assistance	3,015	3,547	3,605	(58)
Citizen Participation Program	50	50	50	
Federal Funds Total	78,579	80,406	79,265	1,141
Total-State Funded Programs	81,644	84,003	82,920	1,083
General Revenue Fund Total-Human Services	773,600	727,498	718,532	8,966
Federal Grant Fund Total-Human Services	1,003,026	990,064	961,466	28,598
Restricted Fund Total-Human Services	5,613	5,238	3,159	2,079
Other Fund Total-Human Services	50	50	50	
Total-Department of Human Services	1,782,288	1,722,850	1,683,207	39,643
Department of Mental Health, Retardation, and Hospital Central Management				
General Revenue Total	2,449	2,270	2,294	(24)
Total-Central Management	2,449	2,270	2,294	(24)
Hospital & Community System Support				
RICAP-Utilities Upgrade	884	884	668	216
RICAP-Medical Center Rehabilitation	625	375	146	229
RICAP-Utilities Systems Water Tanks and Pipes	331	331	6	325
RICAP-DD Private Community Firecode		50		50
RICAP-Central Power Plant Rehabilitation	236	236	1	235
RICAP-Community Fire Code Compliance	1,545	300	256	44
Pastore Fire Code Compliance	500	100	76	24
General Revenue Total	22,914	28,595	29,459	(864)
Federal Funds Total		61		61
Total-Hospital & Community System Support	27,036	30,932	30,611	321
Service for the Developmentally Disabled				
RICAP-MR/DD Residential Development	1,175	925	925	
RICAP-Dev. Disability Group Homes	1,279	1,048	1,047	1
RICAP-Regional Center Repair/Rehabilitation	281	181	130	51
General Revenue Total	110,527	110,945	109,403	1,542
Federal Funds Total	134,326	134,925	132,094	2,831
Total-Service for the Developmentally Disabled	247,589	248,024	243,600	4,424
Integrated Mental Health Services				
General Revenue Total	41,368	42,762	42,091	671
Federal Funds Total	37,849	38,024	36,566	1,458
Total-Integrated Mental Health Services	79,216	80,786	78,657	2,129
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	397	197	46	151
General Revenue Total	47,515	49,799	51,622	(1,823)
Federal Funds Total	55,070	55,178	57,625	(2,447)
Total-Hospital & Community Rehabilitation Svcs	102,982	105,174	109,292	(4,118)

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Substance Abuse				
RICAP-Asset Protection	251	125	83	42
General Revenues Total	15,313	15,287	14,999	288
Federal Funds Total	14,942	14,815	14,064	751
Restricted Receipts Total	100	90	7	83
Total-Substance Abuse	30,606	30,317	29,152	1,165
General Revenue Fund Total-MHRH	240,087	249,658	249,868	(210)
Federal Grant Fund Total-MHRH	242,185	243,003	240,349	2,654
Restricted Fund Total-MHRH	100	90	7	83
Other Fund Total-MHRH	7,505	4,752	3,383	1,369
Total-Department of Mental Health, Retardation, and Hospital	489,877	497,502	493,607	3,895
Office of Child Advocate				
General Revenue Total	499	536	446	90
Federal Funds Total	48	10	11	(1)
Total-Office of the Child Advocate	547	547	456	91
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	328	337	300	37
Federal Fund Total	45	15		15
Total-Rhode Island Commission of the Deaf and Hard of Hearing	373	352	300	52
State Council on Developmental Disabilities				
Federal Funds Total	512	459	468	(9)
Total-State Council on Developmental Disabilities	512	459	468	(9)
Governor's Commission on Disabilities				
General Revenue Total	531	548	540	8
Federal Funds Total	117	226	72	154
Restricted Receipts Total	64	86	67	19
RICAP-Handicapped Accessibility Facility Renovation	196	200	114	86
Total-Governor's Commission on Disabilities	908	1,061	793	268
Rhode Island Commission for Human Rights				
General Revenue Total	979	1,006	984	22
Federal Funds Total	270	312	198	114
Total-Rhode Island Commission for Human Rights	1,249	1,318	1,182	136
Office of Mental Health Advocate				
General Revenue Total	351	382	377	5
Total-Office of Mental Health Advocate	351	382	377	5

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Elementary and Secondary Education				
Education Aid				
State Support Local School Operations	642,631	643,996	643,995	1
Federal Funds Total	2,241	2,022	1,228	794
Restricted Funds Total	2,060	1,835	1,614	221
Total-Education Aid	646,932	647,852	646,836	1,016
School Construction				
General Revenue Total	47,172	46,624	46,624	
Total-School Construction	47,172	46,624	46,624	
Teachers' Retirement				
General Revenue Total	58,633	56,113	54,538	1,575
Total-Teachers' Retirement	58,633	56,113	54,538	1,575
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	54			
RICAP-DEAF-Building Planning	200	150	150	
General Revenue Total	5,981	6,206	6,064	142
Federal Funds Total	382	392	239	153
Total-RI School for the Deaf	6,617	6,748	6,453	295
Central Falls School District				
General Revenue Total	41,241	41,242	41,241	1
Total-Central Falls School District	41,241	41,242	41,241	1
Davies Career and Technical School				
RICAP-Davies HVAC	137	137	13	124
General Revenue Total	12,906	13,166	12,985	181
Federal Funds Total	1,359	1,508	1,287	221
Restricted Receipts Total	2	12	10	2
Total-Davies Career and Technical School	14,405	14,824	14,295	529
Metropolitan Career and Technical School				
General Revenue Total	8,815	8,815	8,815	
Total-Metropolitan Career and Technical School	8,815	8,815	8,815	

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Administration of the Comprehensive Education Strategy				
RICAP-Charho Wells	66	71	25	46
Vision Service	140	140		140
RICAP-Davies Roof Repair	5			
RICAP-State Owned Schools-Fire Alarm Systems	20	20	20	
General Revenue Total	20,205	20,031	19,985	46
Federal Funds Total	174,785	175,752	177,355	(1,603)
Restricted Receipts Total	2,797	2,143	1,871	272
Total-Administration of the Comprehensive Education Strategy	198,018	198,157	199,257	(1,100)
General Revenue Fund Total-Dept of Elem & Sec Education	837,583	836,192	834,246	1,946
Federal Grant Fund Total-Dept of Elem & Sec Education	178,767	179,673	180,108	(435)
Restricted Fund Total-Dept of Elem & Sec Education	4,859	3,989	3,496	493
Other Fund Total-Dept of Elem & Sec Education	623	519	208	311
Total-Department of Elementary and Secondary Education	1,021,832	1,020,373	1,018,059	2,314
Public Higher Education				
Board Of Governors/Office of Higher Education				
General revenues	7,314	7,039	7,035	4
Debt-People Soft Lease		1,211	1,211	
Federal Funds	3,086	3,086	1,348	1,738
Restricted Funds		502	151	351
Total Board of Governors	10,400	11,838	9,745	2,093
University of Rhode Island				
General Revenues	84,303	82,378	82,378	
Total University of Rhode Island	84,304	82,378	82,378	
Rhode Island College				
General Revenues	44,981	44,069	44,069	
RIRBA-Rhode Island College		232	232	
Total Rhode Island College	44,981	44,301	44,301	
Community College of Rhode Island				
General Revenue	45,770	45,445	45,445	
Total Community College of Rhode Island	45,770	45,445	45,445	
General Revenue Total - Public Higher Education	182,369	180,376	180,372	4
Federal Grant Total-Public Higher Education	3,086	3,086	1,348	1,738
Restricted Receipts Total-Public Higher Education		502	151	351
Total-Public Higher Education	185,455	183,964	181,871	2,093

Exhibit A-66

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Rhode Island State Council on the Arts				
Operating Support	1,411	1,429	1,405	24
Grants	1,234	1,212	582	630
Federal Funds Total	758	675	584	91
Art for Public Facilities Fund	600	600	55	545
General Revenue Fund Total-RI State Council on the Arts	2,646	2,642	1,988	654
Federal Grant Fund Total-RI State Council on the Arts	758	675	584	91
Other Fund Total-RI State Council on the Arts	600	600	55	545
Total-Rhode Island State Council on the Arts	4,004	3,916	2,626	1,290
Rhode Island Atomic Energy Commission				
URI Sponsored Research	157	161	160	1
RICAP-Paint Interior Reactor Building Walls	2			
General Revenue Total	766	770	799	(29)
Federal Funds Total	325	375	136	239
General Revenue Fund Total-RI Atomic Energy Council	766	770	799	(29)
Federal Grant Fund Total-RI Atomic Energy Council	325	375	136	239
Other Fund Total-RI Atomic Energy Council	159	161	160	1
Total-Rhode Island Atomic Energy Commission	1,249	1,306	1,095	211
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunities	8,923	6,723	6,723	
Authority Operations and Other Grants	978	1,006	1,006	
General Revenue Total-RIHEAA	9,901	7,729	7,729	
Total-R I Higher Education Assistance Authority	9,901	7,729	7,729	
Historical Preservation and Heritage Commission				
General Revenue Total	1,414	1,415	1,395	20
Federal Funds Total	584	606	582	24
Restricted Receipts Total	237	560	307	253
Total-Historical Preservation and Heritage Commission	2,235	2,581	2,284	297
R I Public Telecommunication Authority				
General Revenue Total	1,286	1,316	1,258	58
Total-R I Public Telecommunication Authority	1,286	1,316	1,258	58
Department of Attorney General				
Criminal				
General Revenue Total	11,823	12,624	12,271	353
Federal Funds Total	1,035	1,197	1,161	36
Restricted Receipts Total	360	468	220	248
Total-Criminal	13,218	14,289	13,651	638

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Civil				
General Revenue Total	3,672	4,240	4,505	(265)
Restricted Receipts Total	502	519	499	20
Total-Civil	4,174	4,759	5,004	(245)
Bureau of Criminal Identification				
General Revenue Total	849	944	948	(4)
Federal Funds Total	124	271	230	41
Total-Bureau of Criminal Identification	973	1,215	1,178	37
General				
General Revenue Total	1,977	2,155	2,172	(17)
RICAP-Building Renovations & Repairs	466	466	219	247
Total-General	2,442	2,621	2,392	229
General Revenue Fund Total-Dept of Attorney General	18,321	19,963	19,896	67
Federal Grant Fund Total-Dept of Attorney General	1,159	1,468	1,391	77
Restricted Fund Total-Dept of Attorney General	862	987	719	268
Other Fund Total-Dept of Attorney General	466	466	219	247
Total-Department of Attorney General	20,807	22,884	22,225	659
Department of Corrections				
Central Management				
General Revenue Total	10,702	10,623	10,216	407
Federal Funds Total	400	426	216	210
Total-Central Management	11,101	11,049	10,432	617
Parole Board				
General Revenue Total	1,141	1,213	1,146	67
Federal Fund Total	33	45	32	13
Total-Parole Board	1,174	1,258	1,178	80

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Institutional Corrections				
RICAP-Fire Code Safety Improvements	299	300	300	
RICAP-Security Camera Installation	442			
RICAP-Bernadette Guay Bldg. Roof	207	57	1	56
RICAP-Heating & Temperature Controls	326	326	66	260
RICAP-Medium HVAC Renovations	31			
RICAP-Reintegration Center State Match	540	540		540
RICAP-General Renovations-Maximum	684	234	74	160
RICAP-Roof/Masonry Renovations-Women's	1,455	1,355	1,082	273
RICAP-Perimeter/Security Upgrades	146	146		146
RICAP-Women's Bath Renovation	613	113	113	
RICAP-Correctional Industries Roof	6			
RICAP-Minimum-Infrastructure	100			
High-Infrastructure Improvement	200	200	39	161
RICAP-Price/Window/HVAC Renovations	215			
RICAP-MIS/Admin Units Relocation	50			
General Revenue Total	123,003	134,946	127,822	7,124
Federal Funds Total	7,127	9,510	7,822	1,688
Restricted Receipts Total		3	2	1
Total-Institutional Corrections	135,443	147,729	137,322	10,407
Community Corrections				
General Revenue Total	12,373	12,728	11,933	795
Federal Funds Total	1,914	1,569	994	575
Total-Community Corrections	14,287	14,297	12,927	1,370
General Revenue Fund Total-Corrections	147,219	159,510	151,117	8,393
Federal Grant Fund Total-Corrections	9,474	11,550	9,064	2,486
Restricted Fund Total-Corrections		3	2	1
Other Fund Total-Corrections	5,314	3,270	1,675	1,595
Total-Department of Corrections	162,006	174,333	161,859	12,474
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	232	32	30	2
RICAP-Blackston Valley Courthouse Study	250	155	154	1
RICAP-Judicial HVAC	480	480	390	90
RICAP-Murray Judicial Complex - Interior Refurbishment	3			
RICAP-Fogarty Judicial Annex	23	23	21	2
RICAP-Licht Judicial Complex Foundation	35	35	32	3
RICAP-Licht Window Restoration Project	550	825	814	11
General Revenue Total	21,786	23,251	23,406	(155)
Defense of Indigents	3,217		3,185	(368)
Federal Funds Total	185	381	221	160
Restricted Receipts Total	961	1,082	1,031	51
Total-Supreme Court	27,722	29,081	29,284	(203)

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Superior Court				
Federal Funds Total	568	728	335	393
General Revenue Total	18,138	18,845	18,398	447
Total-Superior Court	18,706	19,573	18,733	840
Family Court				
General Revenue Total	13,917	15,362	16,338	(976)
Federal Funds Total	2,376	3,650	1,778	1,872
Restricted Receipts Total	142			
Total-Family Court	16,435	19,012	18,116	896
District Court				
General Revenue Total	8,651	9,327	9,353	(26)
Federal Funds Total		6		6
Total-District Court	8,651	9,334	9,353	(19)
Traffic Tribunal				
General Revenue Total	6,863	7,075	6,741	334
Restricted Receipts				
Total-Traffic Tribunal	6,863	7,075	6,741	334
Worker's Compensation Court				
Restricted Receipts Total	6,287	7,154	6,601	553
Total-Worker's Compensation Court	6,287	7,154	6,601	553
Justice Link - State Match			239	(239)
General Revenue Fund Total-Judicial Dept	72,571	76,677	77,660	(983)
Federal Grant Fund Total-Judicial Dept	3,129	4,766	2,334	2,432
Restricted Fund Total-Judicial Dept	7,390	8,236	7,632	604
Other Fund Total-Judicial Dept	1,574	1,550	1,441	109
Total-Judicial Department	84,664	91,229	89,067	2,162
Militia of the State				

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
National Guard				
RICAP-Logistic/Maintenance Facilities	63			
RICAP-Camp Fogarty Training Site	40			
RICAP-Benefit St. Arsenal Rehabilitation	219	17		17
RICAP-Schofield Armory Rehabilitation	220	200	24	176
RICAP-State Armories Fire Code Comp	119	75		75
RICAP-Warwick Armory Boiler	50			
RICAP-Emergency Operations Center	72	10	9	1
RICAP-Federal Armories Fire Code Comp	10			
RICAP-Command Readiness Center-Roof	30			
RICAP-Combined Support Maintenance Shop	25			
RICAP-North Smithfield Armory			(1)	1
RICAP-Warren Armory			(5)	5
RICAP-AMC Roof Rehabilitation	46	4	2	2
RICAP-Army Aviation Support Facility	25			
RICAP-Command Readiness Center	13			
General Revenue Total	1,760	1,962	1,869	93
Federal Funds Total	6,805	8,018	6,591	1,427
Restricted Receipts Total	145	145	153	(8)
Total-National Guard	9,640	10,431	8,642	1,789
Emergency Management				
General Revenue Total	572	773	1,113	(340)
Federal Funds Total	19,676	31,963	18,322	13,641
Restricted Receipts Total	276	212	112	100
Total-Emergency Management	20,524	32,948	19,547	13,401
General Revenue Fund Total-Militia of the State	2,332	2,735	2,982	(247)
Federal Grant Fund Total-Militia of the State	26,481	39,981	24,913	15,068
Restricted Fund Total-Militia of the State	421	357	265	92
Other Fund Total-Militia of the State	931	306	28	278
Total-Militia of the State	30,165	43,379	28,188	15,191
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,170	4,130	4,341	(211)
Federal Funds Total	219	305	171	134
Restricted Receipts Total	1,657	1,828	1,746	82
Total-E-911 Uniform Emergency Telephone System	6,046	6,263	6,259	4
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	272	288	295	(7)
Total-Fire Safety Code Board of Appeal and Review	272	288	295	(7)

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	2,369	2,306	2,244	62
Federal Funds Total	342	367	130	237
Other Funds	13	13		13
Total-Division of Fire Safety	2,723	2,686	2,373	313
Commission on Judicial Tenure & Discipline				
General Revenue Total	107	113	112	1
Total-Commission on Judicial Tenure & Discipline	107	113	112	1
Rhode Island Governor's Justice Commission				
General Revenue Total	253	254	253	1
Federal Funds Total	5,452	5,307	5,140	167
Restricted Receipts Total	30	30		30
Total-Rhode Island Governor's Justice Commission	5,735	5,591	5,394	197
Municipal Police Training School				
General Revenue Total	374	374	331	43
Federal Funds Total	30	117	5	112
Total-Municipal Police Training School	404	491	336	155
Rhode Island State Police				
RICAP-Barracks & Training Headquarters'	190			
RICAP-Headquarters Repair/Renovation	116	10	8	2
Traffic Enforcement-Municipal Training	88	467	172	295
Lottery Commission Assistance	141	147	129	18
Road Construction Reimbursement	2,367	2,367	2,723	(356)
General Revenue Total	45,422	46,373	45,222	1,151
Federal Funds Total	1,979	2,058	1,331	727
Restricted Receipts Total	301	357	165	192
General Revenue Fund Total-State Police	45,422	46,373	45,222	1,151
Federal Grant Fund Total-State Police	1,979	2,058	1,331	727
Restricted Fund Total-State Police	301	357	165	192
Other Fund Total-State Police	2,901	2,990	3,031	(41)
Total-Rhode Island State Police	50,604	51,778	49,748	2,030
Office of Public Defenders				
General Revenue Total	7,757	8,430	8,270	160
Federal Funds Total	238	266	128	138
Total-Office of Public Defenders	7,995	8,696	8,398	298

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			70	(70)
Blackstone Bikepath Design			(75)	75
General Revenue Total	7,309	7,482	6,851	631
Federal Funds Total	1,277	1,277	286	991
Restricted Receipts Total	1,734	1,868	2,084	(216)
Total-Office of Director	10,320	10,626	9,217	1,409
Natural Resources				
RICAP-Jamestown Fishing Pier	318	68	65	3
RICAP-Recreational Facilities Improvement	771	300	148	152
RICAP-Fort Adams Rehabilitation	250	50	50	
RICAP-Wickford Marine facility	748	525	6	519
Blackstone Bikepath Design	1,295	1,295	776	519
RICAP-Galilee Piers	391	100	74	26
RICAP-Dam Repair	234	686	406	280
DOT Recreational Projects	25	25	86	(61)
RICAP-Great Swamp Management Area	100			
RICAP-Newport Piers	122	75		75
General Revenue Total	17,074	18,255	18,650	(395)
Federal Funds Total	16,607	16,663	8,593	8,070
Restricted Receipts Total	3,485	3,529	3,109	420
Total-Natural Resources	41,418	41,571	31,963	9,608
Environmental Protection				
General Revenue Total	11,414	11,804	12,588	(784)
Federal Funds Total	12,307	13,217	9,805	3,412
Restricted Receipts Total	5,175	5,239	4,625	614
Total-Environmental Protection	28,896	30,259	27,018	3,241
General Revenue Fund Total-DEM	35,796	37,540	38,090	(550)
Federal Grant Fund Total-DEM	30,190	31,157	18,684	12,473
Restricted Fund Total-DEM	10,394	10,635	9,818	817
Other Fund Total-DEM	4,253	3,125	1,606	1,519
Total-Department of Environmental Management	80,634	82,457	68,198	14,259
Coastal Resources Management Council				
RICAP-Allins Cove	50	50	45	5
General Revenue Total	1,580	1,677	1,682	(5)
Federal Funds Total	1,753	2,539	2,087	452
Restricted Total	806	816	670	146
Total-Coastal Resources Management Council	4,189	5,082	4,483	599

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Water Resources Board				
RICAP-Big River Management Area	131	131	84	47
General Revenue Total	1,857	1,627	1,359	268
Federal Total	500	500	204	296
Restricted Receipts Total	339	362	327	35
Total-Water Resources Board	2,827	2,620	1,974	646
Departmental Expenditures	5,116,661	5,134,129	4,992,310	141,819
Transfer of Excess Budget Reserve to Bond Capital Fund			59,095	(59,095)
Total Expenditures	5,116,661	5,134,129	5,051,405	82,724
Change in Fund Balance	\$ 50,122	\$ 35,011	18,395	\$ (16,616)
Fund balance - beginning			184,802	
Fund balance - ending			\$ 203,197	
General Revenue Funds Total	\$ 3,115,431	\$ 3,100,209	\$ 3,073,388	\$ 26,821
Federal Grants Funds Total	1,756,638	1,799,324	1,713,287	86,037
Restricted Funds Total	108,785	113,706	97,002	16,704
Other Funds Total	135,807	120,890	108,633	12,257
Total Expenditures	\$ 5,116,661	\$ 5,134,129	\$ 4,992,310	\$ 141,819

** 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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Taxes	\$ 142,800	\$ 142,715	\$ 142,410	\$ (305)
Departmental restricted revenue	6	3,061	(584)	(3,645)
Federal grants	207,853	244,187	249,088	4,901
Other revenues	5,490	7,480	5,688	(1,792)
Total revenues	356,149	397,443	396,602	(841)
Other financing sources:				
Operating transfers in			42,150	42,150
Total revenues and other financing sources	356,149	397,443	438,752	41,309
Expenditures:				
Central Management				
Gasoline Tax	3,614	3,650	3,602	48
Federal Funds	9,608	5,408	3,213	2,195
Total - Central Management	13,222	9,058	6,815	2,243
Management and Budget				
Gasoline Tax	2,067	3,046	4,578	(1,532)
Total - Management and Budget	2,067	3,046	4,578	(1,532)
Infrastructure - Engineering				
Gasoline Tax	50,815	46,551	49,692	(3,141)
RICAP - RIPTA Land and Buildings	330	330	21	309
Train Station	100	75		75
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	6,000	2,875	3,125
Federal Funds	198,244	238,779	213,862	24,917
FHWA Pledged Revenues			41,801	(41,801)
Restricted Receipts	6	3,061	(12)	3,073
Subtotal - Infrastructure - Engineering	254,495	295,796	308,239	(12,443)
State Match - FHWA			41,603	(41,603)
Total - Infrastructure - Engineering	254,495	295,796	349,842	(54,046)
Infrastructure - Maintenance				
Gasoline Tax	42,259	42,491	41,283	1,208
Outdoor Advertising	61	75	3	72
Nonland Surplus		288		288
Total - Infrastructure - Maintenance	42,320	42,854	41,286	1,568
Total Expenditures	312,104	350,754	402,521	(51,767)
Other financing uses:				
Transfers to other funds				
Gas tax			45,877	
Other			233	
Total expenditures and other financing uses			448,631	
Net change in fund balance			(9,879)	
Fund balance - beginning			33,940	
Fund balance - ending			\$ 24,061	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2006
(Expressed in thousands)

Employees' Retirement System

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age - (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
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%
06/30/2003 **	5,695,358	8,858,979	3,163,621	64.3%	1,440,744	219.6%

State Police Retirement Benefits Trust

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age - (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
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%
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%

Judicial Retirement Benefits Trust

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age - (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
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%
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%

** Restated June 30, 2003 actuarial accrued liability due to the adoption of Article 7, Substitute A as Amended

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2006

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. The category Pharmacy was first designated by the Caseload Estimating Conference in FY 2005 to subdivide those expenditures for pharmaceuticals formerly recorded in accounts assigned to the category Other. In FY 2006, not all of the appropriate charges were recorded in the account established for Pharmacy. A portion of the pharmacy charges are included in the Other category.

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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 0.4 percent between 1992 and 2006. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.6 percent in 2006. 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 1,067,610 as of December 2006.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1992 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 2006, Rhode Island per capita personal income was \$37,388 versus U.S. per capita personal income of \$36,276. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2005 period, Rhode Island's average poverty rate was 11.1 percent versus the U.S. average poverty rate of 12.3 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island non-farm employment grew at a rate of 0.8 percent in 2004, 0.5 percent in 2005 and 0.5 percent in 2006. The growth rate for 2006 was half to the average annual growth rate for RI non-farm employment for the 1992 – 2006 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 25.6 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 2005 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1989-90 academic year. For 2003-04 Rhode Island spent 38.0 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.

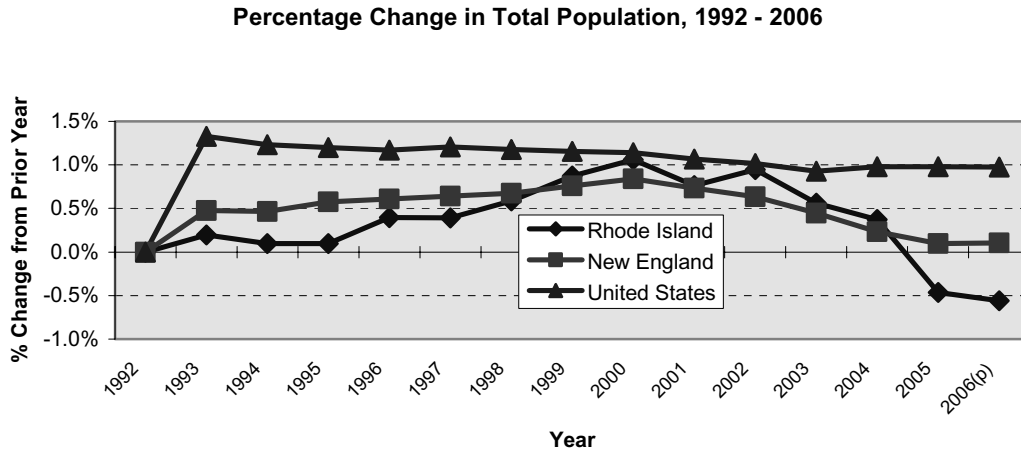
Between 1996 and 2006 Rhode Island's population increased by 4.6 percent, compared to a 5.3 percent increase for the New England region, and a 11.1 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.8 percent compared to 2.9 percent for New England as a whole. The 2006 population estimates indicate that Rhode Island's population growth rate, at -0.6 percent over 2005, is again lower than that of New England's growth rate of 0.1 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1996 to 2006 period, the United States' average annual population growth rate was 1.1 percent.

Population, 1992 - 2006
(in thousands)

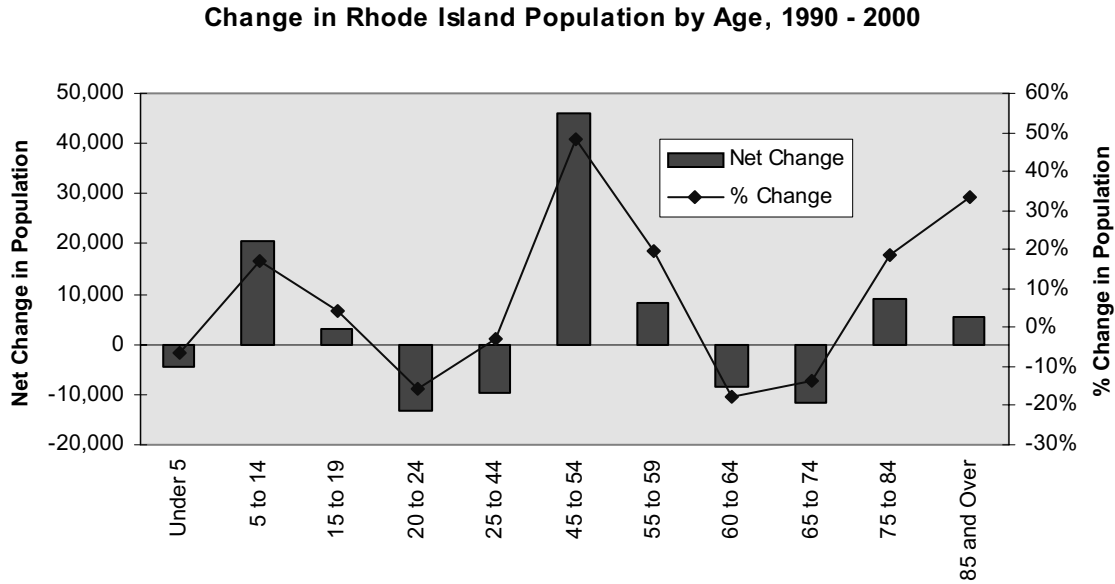
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1992	1,013	-	13,271	-	256,514	-
1993	1,015	0.2%	13,334	0.5%	259,919	1.3%
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,051	1.1%	13,954	0.8%	282,217	1.1%
2001	1,059	0.8%	14,056	0.7%	285,226	1.1%
2002	1,069	0.9%	14,145	0.6%	288,126	1.0%
2003	1,075	0.6%	14,208	0.4%	290,796	0.9%
2004	1,079	0.4%	14,241	0.2%	293,638	1.0%
2005	1,074	-0.5%	14,255	0.1%	296,507	1.0%
2006(p)	1,068	-0.6%	14,270	0.1%	299,398	1.0%

U.S. Department of Commerce. Bureau of Economic Analysis
(p) = Preliminary estimate

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. The upswing in Rhode Islanders in the “5 to 14” age group is a reflection of the “baby boom echo” generation.

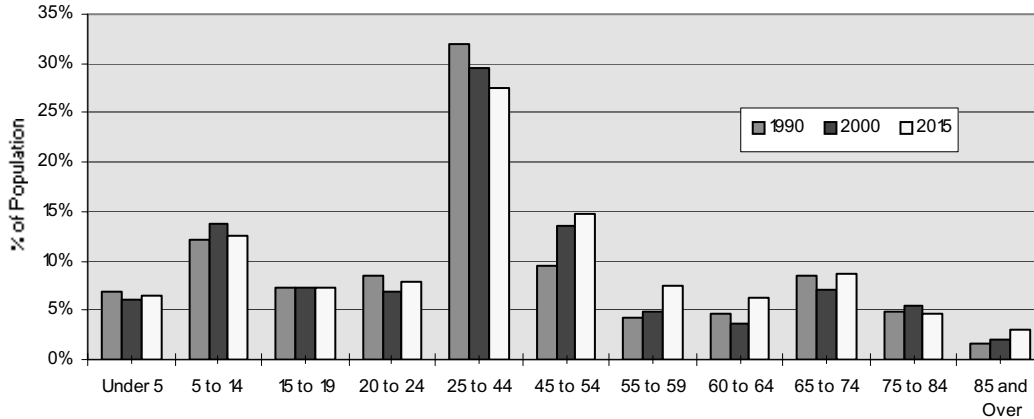


Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the “baby boom” generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders 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 2006. Over this period, Rhode Island per capita nominal personal income averaged \$807 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 \$441. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1992 – 2006 by an average of \$5,080. 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. In 2003, the gap had fallen 23.8 percent to \$5,263 but rose again in 2006 to \$6,464.

From 1993 to 1998, the relationship between per capita real income growth in Rhode Island alternately exceeded and trailed that of the United States. In 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. In 2001 – 2003, this pattern reversed itself as the national economy slid into recession. In 2004 – 2005, the pattern again reversed with real income trailing 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 1992 to 2006, Rhode Island per capita real income growth has exceeded that of New England as a whole on six occasions, 1993, 1995, and, most recently, 2001 – 2003 and 2006.

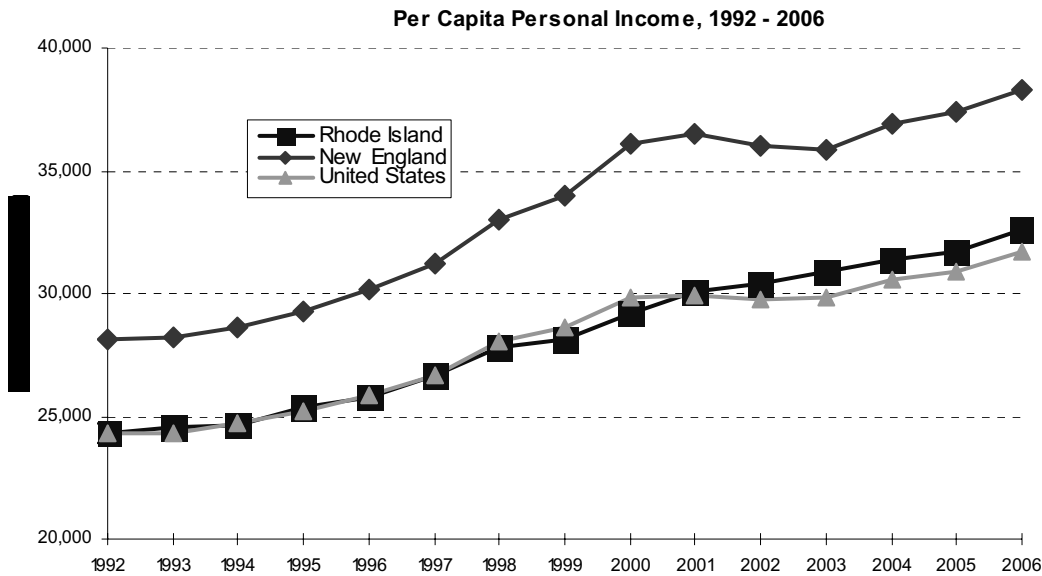
Per Capita Personal Income, 1992 - 2006

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.
1992	20,867	24,172	20,854	85.82%	24,314	28,165	24,299	-	-	-
1993	21,586	24,752	21,346	87.81%	24,584	28,190	24,311	1.1%	0.1%	0.0%
1994	22,097	25,687	22,172	89.65%	24,647	28,651	24,731	0.3%	1.6%	1.7%
1995	23,225	26,832	23,076	91.58%	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	93.55%	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	95.12%	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	95.98%	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	97.58%	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,212	36,116	29,843	100.00%	29,212	36,116	29,843	3.8%	6.4%	4.2%
2001	30,683	37,308	30,562	102.09%	30,054	36,543	29,935	2.9%	1.2%	0.3%
2002	31,477	37,330	30,795	103.54%	30,401	36,054	29,742	1.2%	-1.3%	-0.6%
2003	32,631	37,894	31,466	105.60%	30,901	35,884	29,797	1.6%	-0.5%	0.2%
2004	33,996	39,969	33,090	108.37%	31,370	36,882	30,534	1.5%	2.8%	2.5%
2005	35,324	41,670	34,471	111.49%	31,684	37,376	30,918	1.0%	1.3%	1.3%
2006	37,388	43,852	36,276	114.55%	32,639	38,282	31,668	3.0%	2.4%	2.4%

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.

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1992. 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 – 2006 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1992 – 2006 period.



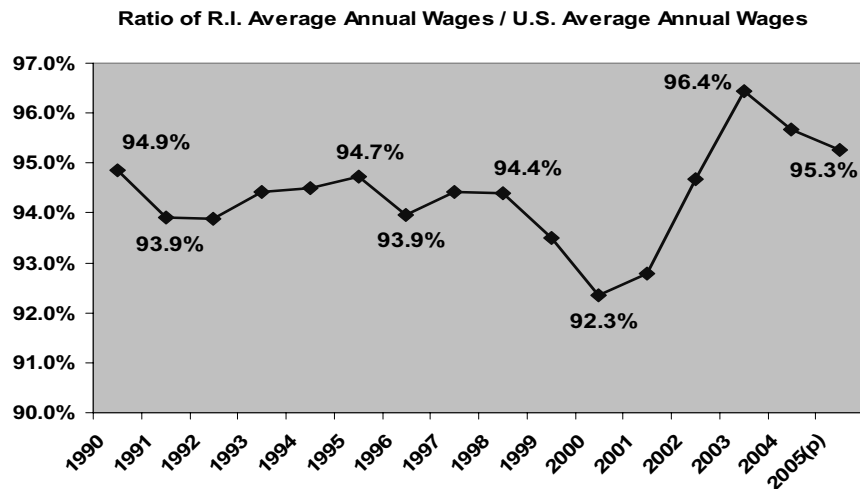
Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend until recently. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004 and 2005, 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, 1990 – 2005
(In current dollars)

Year	R.I.	U.S.	Ratio	
			R.I./U.S.	
1990	22,387	23,602	94.9%	-
1991	23,082	24,578	93.9%	3.1%
1992	24,315	25,897	93.9%	5.3%
1993	24,889	26,361	94.4%	2.4%
1994	25,454	26,939	94.5%	2.3%
1995	26,375	27,846	94.7%	3.6%
1996	27,194	28,946	93.9%	3.1%
1997	28,662	30,353	94.4%	5.4%
1998	30,156	31,945	94.4%	5.2%
1999	31,169	33,340	93.5%	3.4%
2000	32,615	35,320	92.3%	4.6%
2001	33,603	36,219	92.8%	3.0%
2002	34,810	36,764	94.7%	3.6%
2003	36,415	37,765	96.4%	4.6%
2004	37,651	39,354	95.7%	3.4%
2005	38,746	40,671	95.3%	2.9%

U.S. Department of Labor. Bureau of Labor Statistics

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1990 – 2005 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1992 and 2006. 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 1992 to 2006, 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 1993 – 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.

**Consumer Price Index for All Urban Consumers (CPI-U), 1992 - 2006
(1982 – 1984 = 100)**

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1992	147.3	140.3	105.0%	-	-
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%

U.S. Department of Labor. Bureau of Labor Statistics

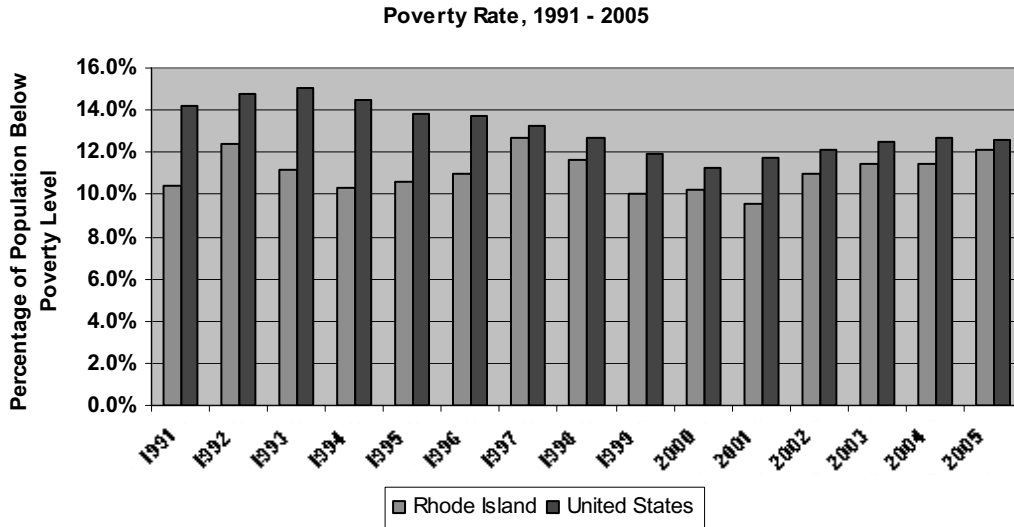
Poverty. From 1991 – 2005 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region’s population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1991 and 2005, the 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, 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 1991 through 2005.

Poverty Rate, 1991 - 2005

Year	R.I.	U.S.	Ratio	Percentage Change	
			R.I./U.S.	R.I.	U.S.
1991	10.4	14.2	73.2%	-	-
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%

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 1990 – 2005. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1992 to 2006 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Non-Farm Employment by Industry, 1990 – 2006

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
1992	12,500	-	84,800	-	71,100	-	72,300	-	72,100	-	50,900	-	61,200	-	424,800	-
1993	12,800	2.4%	83,600	-1.4%	71,200	0.1%	74,700	3.3%	74,200	2.9%	52,100	2.4%	61,400	0.3%	430,000	1.2%
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	440,100	1.4%
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	441,600	0.3%
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	450,000	1.9%
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	458,000	1.8%
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	465,500	1.6%
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	476,700	2.4%
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	478,400	0.4%
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	479,400	0.2%
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	484,300	1.0%
2004	21,000	0.0%	56,900	-3.1%	80,000	-1.0%	98,700	4.2%	92,900	2.1%	73,100	1.5%	65,800	-0.6%	488,400	0.8%
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%

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1992 and 2006, total nonfarm employment in Rhode Island increased by 16.1 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing, which declined by 37.9 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.

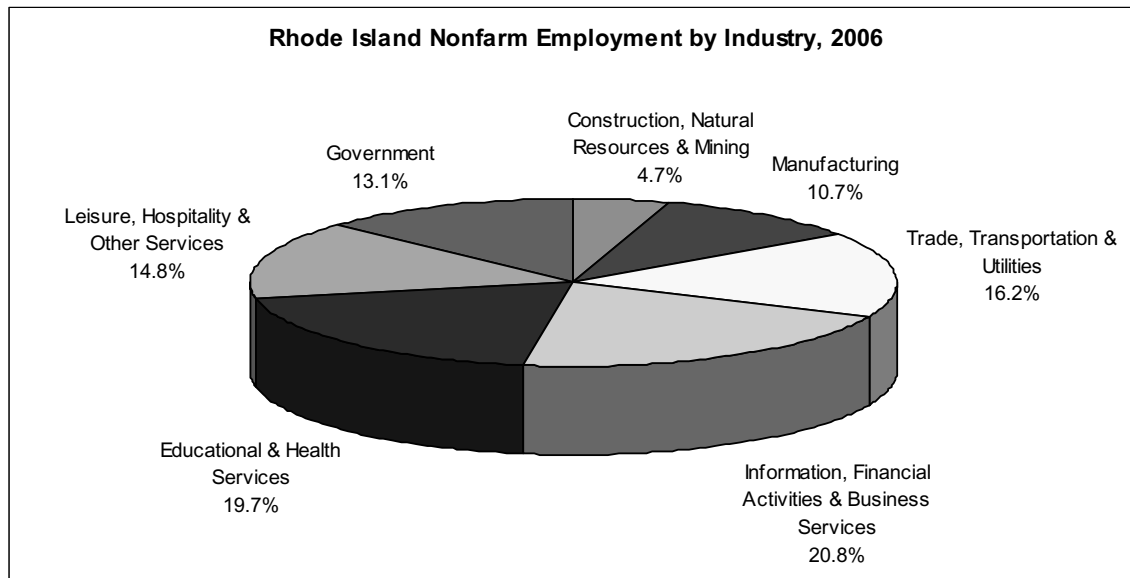
Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1996 to 2006. Total nonfarm employment increased by 11.7 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 31.9 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 24.1 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 64.1 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1996 to 2006 period, transforming from a manufacturing based economy to service based economy.

Rhode Island Non-Farm Employment by Industry, 1996 & 2006

Employment Sector	1996	% of Total	2006	% of Total	% Change 1996-2006
Construction, Natural Resources & Mining	14,200	3.2%	23,300	4.7%	64.1%
Manufacturing	77,400	17.5%	52,700	10.7%	-31.9%
Trade, Transportation & Utilities	73,600	16.7%	79,800	16.2%	8.4%
Information, Financial Activities & Business Services	78,300	17.7%	102,700	20.8%	31.2%
Educational & Health Services	79,200	17.9%	97,000	19.7%	22.5%
Leisure, Hospitality & Other Services	57,700	13.1%	73,200	14.8%	26.9%
Government	61,300	13.9%	64,800	13.1%	5.7%
Total Employment	441,600	100.0%	493,400	100.0%	11.7%

R.I. Department of Labor and Training. Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Information, Financial Activities and Business Services sector, with 20.8 percent of the nonfarm work force in 2006, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.7 percent), Trade, Transportation and Utilities (16.2 percent), and Leisure, Hospitality and Other Services employment (14.8 percent).



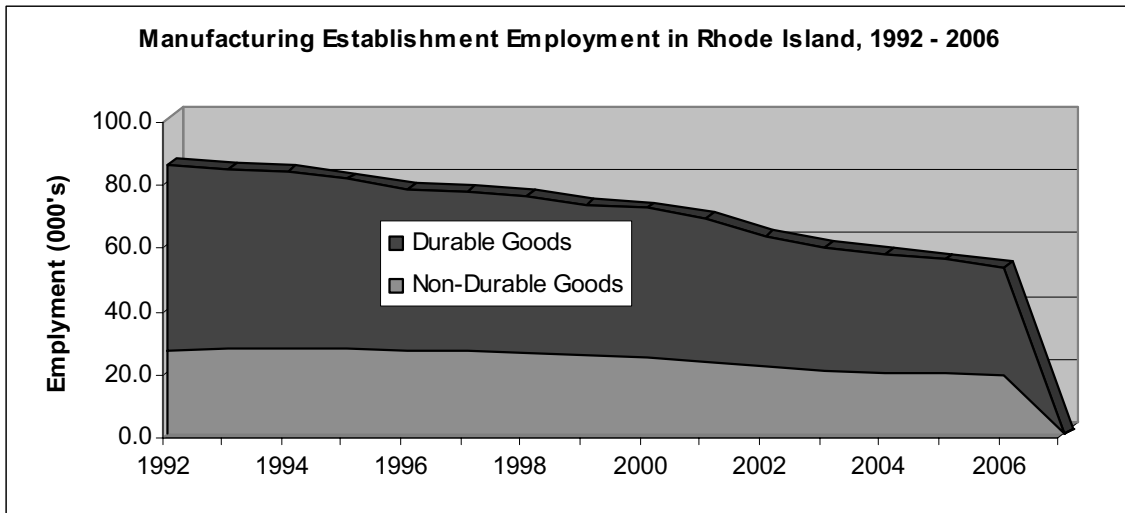
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1996 and 2006, falling by 31.9 percent over this period. The rate of decline 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 and 4.0 percent in 2006, consistent with the overall recovery in the national economy.

Manufacturing Establishment Employment in Rhode Island, 1996 - 2006
(In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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
Percentage Change	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.6%
Durable Goods	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4	36.0	34.2
Percentage Change	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%	-3.7%	-5.0%
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
Percentage Change	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%	-3.5%	-4.0%

R.I. Department of Labor and Training. Labor Market Information

Employment in the manufacture of non-durable goods declined or remained even in every year since 1994 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 2006. Together, the top 100 employ 147,301 persons, which is approximately 29 percent of the total nonfarm wage and salary employment in Rhode Island.

Rhode Island's Largest Employers

Employed	Employer	Primary Business Activity
11,907	State of Rhode Island - <i>excluding RIC, URI, and CCRI*</i>	Government
10,935	Lifespan	Hospital
9,982	U.S. Government (excluding military)	Government
6,611	Care New England	Hospital
6,200	Diocese of Providence	Catholic Church
5,683	CVS Corporation	Pharmacies
5,500	Royal Bank of Scotland	Bank
4,455	Royal Ahold (Stop & Shop Supermarket Co.)	Grocery Stores
3,943	Brown University	University
3,000	Bank of America	Bank
2,383	RIARC (Total of independent chapters)	Association for Retarded Citizens
2,300	University of Rhode Island	University
2,240	Shaw's Super Market	Grocery Stores
2,200	General Dynamics Corp.	Ship & Boat Building Mfg.
2,115	The Jan Companies	Eating Places
2,104	Metropolitan Life Insurance Co.	Insurance
2,079	St. Joseph Health Services of Rhode Island	Hospital
2,050	Fidelity Investments	Investment Services
1,875	WAL-Mart	Retail
1,828	Brooks Pharmacy	Pharmacies
1,636	Raytheon Systems Company	Nautical Systems & Equipment Mfg.
1,603	Memorial Hospital of Rhode Island	Hospital
1,500	Amgen, Inc.	Biotechnology
1,440	The Home Depot	Building Supplies
1,340	Roger Williams Medical Center	Hospital
1,277	Amica Life Insurance Company	Insurance
1,270	Johnson & Wales University	University
1,260	Cox Communications	Communications
1,224	McDonald's	Eating Places
1,205	Verizon Communications	Communications
1,175	Landmark Health System	Hospital
1,167	Securitas, AB	Security Services
1,144	American Power Conversion	Uninterruptible Power Supplies & Access.
1,119	Blue Cross & Blue Shield	Medical Insurance
1,079	AAA Southern New England	Travel
1,074	GTECH Corporation	Lottery Systems
1,050	South County Hospital	Hospital
1,050	National Grid	Power Generation
1,034	Hasbro, Inc.	Toy Manufacturing
1,011	Sovereign Bank	Bank
1,000	United Parcel Service	Package Delivery
990	Chelo's	Eating Places
989	Belo Corporation	Publishing
946	Veterans' Administration Medical Center	Hospital
928	Rhode Island College	College
912	Rhode Island School of Design	College
873	R.I. Public Transit Authority	Public Transit Authority
818	Community College of Rhode Island	College
810	Laidlaw Transit, Inc.	Transportation
800	U.S. Security Associates, Inc.	Security Services

R.I. Economic Development Corporation, Research Division.

* The State of Rhode Island, Rhode Island College (RIC), University of Rhode Island (URI), and Community College of Rhode Island (CCRI) reported employing a total of 15,953 Full Time Equivalent Positions.

Unemployment. From 1990 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 1990 and 2005.

Annual Average Civilian Labor Force and Unemployment, 1990 – 2005
(In Thousands)

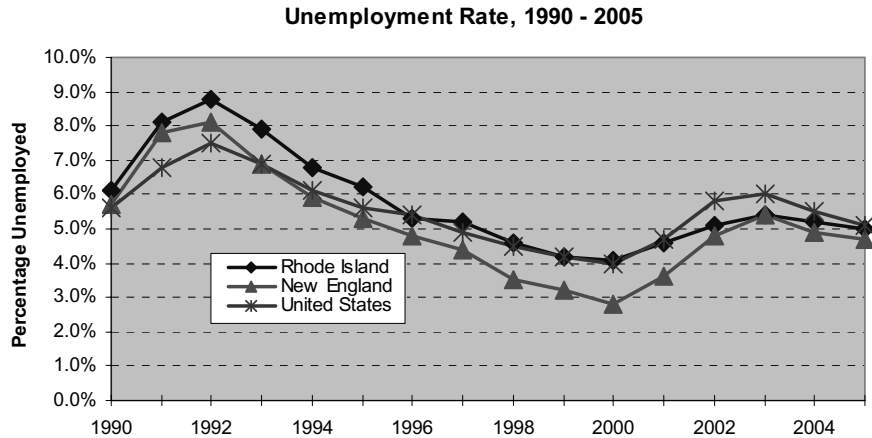
Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
1990(m)	526	7,128	125,840	32	409	7,047	6.1%	5.7%	5.6%	108.9%
1991(m)	523	7,112	126,346	42	558	8,628	8.1%	7.8%	6.8%	119.1%
1992(m)	530	7,105	128,105	47	573	9,613	8.8%	8.1%	7.5%	117.3%
1993(m)	527	7,062	129,200	42	486	8,940	7.9%	6.9%	6.9%	114.5%
1994(m)	516	7,041	131,056	35	415	7,996	6.8%	5.9%	6.1%	111.5%
1995(m)	509	7,053	132,304	31	375	7,404	6.2%	5.3%	5.6%	110.7%
1996(m)	517	7,118	133,943	28	340	7,236	5.3%	4.8%	5.4%	98.1%
1997(m)	532	7,228	136,297	28	315	6,739	5.2%	4.4%	4.9%	106.1%
1998(m)	534	7,257	137,673	24	253	6,210	4.6%	3.5%	4.5%	102.2%
1999(m)	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	100.0%
2000(b)	543	7,353	142,583	23	203	5,692	4.1%	2.8%	4.0%	102.5%
2001(b)	545	7,420	143,734	25	267	6,801	4.6%	3.6%	4.7%	97.9%
2002(b)	556	7,515	144,863	28	364	8,378	5.1%	4.8%	5.8%	87.9%
2003(b)	568	7,546	146,510	31	409	8,774	5.4%	5.4%	6.0%	90.0%
2004(b)	562	7,517	147,401	29	368	8,149	5.2%	4.9%	5.5%	94.5%
2005(b)	569	7,551	149,320	29	353	7,591	5.0%	4.7%	5.1%	98.0%

U.S. Department of Labor. Bureau of Labor Statistics

(m) Reflects new modeling approach and reestimation as of March 2005. (R.I. & N.E. only)

(b) Reflects revised population controls and model reestimation through 2005. (RI & NE only)

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1990 - 2005 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

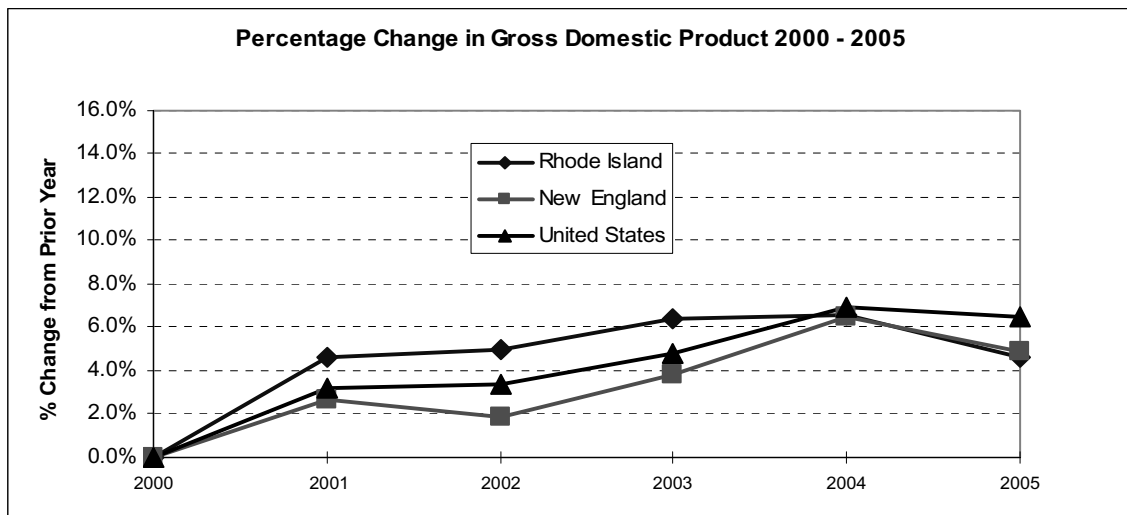
From 2000 – 2003, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2004, Rhode Island GDP growth fell behind that of the United States. During the 2000 – 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, the gap widened between Rhode Island GDP growth and United States GDP growth while New England GDP growth overtook that of Rhode Island for the first time in five 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 2000 – 2005 period.

Gross Domestic Product by State, 1999 – 2005
(Millions of Current Dollars)

Year	Rhode Island		New England		United States	
	GDP	Change	GDP	Change	GDP	Change
2000	33,609	-	565,835	-	9,749,103	-
2001	35,149	4.6%	580,920	2.7%	10,058,168	3.2%
2002	36,909	5.0%	591,733	1.9%	10,398,402	3.4%
2003	39,260	6.4%	614,590	3.9%	10,896,356	4.8%
2004	41,844	6.6%	654,346	6.5%	11,655,335	7.0%
2005	43,787	4.6%	686,547	4.9%	12,409,555	6.5%

Bureau of Economic Analysis, U.S. Department of Commerce

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2000 - 2005 period. It demonstrates that from 2000 to 2003, 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.

Gross Domestic Product by Industry in Rhode Island, 2000 – 2005
(Millions of Dollars)

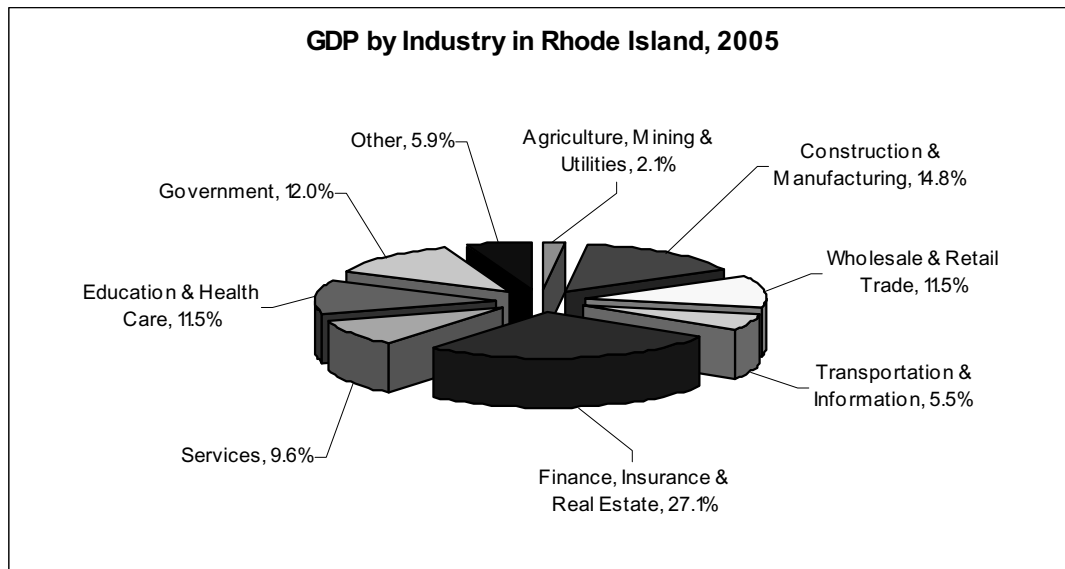
Industrial Sector	2000	2001	2002	2003	2004	2005
Agriculture, forestry, fishing and hunting	40	85	83	89	99	99
Mining	13	16	19	20	20	26
Utilities	759	731	671	727	764	784
Construction	1,613	1,699	1,730	1,939	2,039	2,153
Manufacturing	4,048	3,928	4,126	3,832	4,145	4,306
Wholesale Trade	1,716	1,746	1,862	1,967	2,114	2,259
Retail Trade	2,158	2,254	2,472	2,623	2,728	2,783
Transportation and warehousing, excluding postal service	568	529	557	632	613	637
Information	1,128	1,301	1,355	1,455	1,634	1,756
Finance and insurance	4,408	4,773	4,804	5,198	5,394	5,614
Real estate, rental and leasing	4,329	4,741	5,000	5,520	6,127	6,266
Professional and technical services	1,759	1,831	1,859	1,955	2,093	2,256
Management of companies and enterprises	644	523	517	797	832	889
Administrative and waste services	812	833	831	866	995	1,066
Educational services	681	716	779	841	892	954
Health care and social assistance	2,850	3,061	3,397	3,588	3,823	4,103
Government	4,141	4,318	4,615	4,877	5,094	5,239
Other	1,942	2,064	2,232	2,334	2,438	2,597
Total GDP	33,609	35,149	36,909	39,260	41,844	43,787

Bureau of Economic Analysis, U.S. Department of Commerce

As is apparent from the table, Rhode Island has experienced strong growth in all sectors except Utilities, Manufacturing and Transportation. All but these exceptions grew by over 27.0 percent from 2000 to 2005. The Agriculture, Mining and Information sectors grew the most markedly, all at over 55.0 percent during the 2000 – 2005 period. During this same period, the Manufacturing sector and the Utilities sector stagnated attaining a growth rate of 6.4 percent and 3.3 percent respectively.

Gross State Product by Industry in Rhode Island

The pie chart below shows the share of total Gross State Product in 2005 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 contribution to total GDP has grown from 26.0 percent of GDP in 2000 to 27.1 percent of GDP in 2005. In 2004, F.I.R.E. accounted for \$11.9 billion of total gross domestic product of \$43.8 billion. For the period 2000 – 2005 this sector expanded by a respectable 36.0 percent.

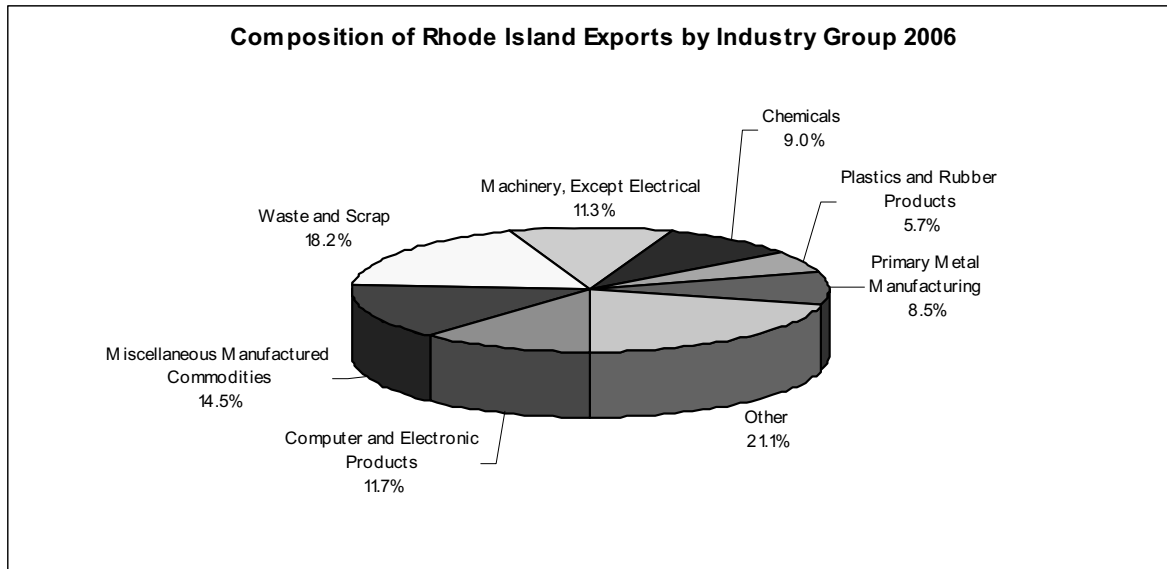
Construction and Manufacturing. In 2005, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.5 billion, or 14.8 percent of the total Gross Domestic Product. This sector increased by 14.1 percent from the 2000 level although it decreased in percent contribution to GDP. In 2000, Construction and Manufacturing comprised a slightly larger piece of GDP at 16.8 percent of the total.

Government. At 12.0 percent of GDP in 2005, 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 2005 than it did in 2000. In 2000, the Government sector accounted for 12.3 percent of GDP. The growth rate in 2001 was 4.3 percent, in 2002 it was 6.9 percent, in 2003 it was 5.7 percent, in 2004 it was 4.4 percent, and in 2005 it was 2.8 percent. In 2005, the Government sector contributed \$5.2 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 2000, Services have remained an integral sector accounting for 27.1 percent of Rhode Island's GDP in 2005. From 2000 to 2005, Services have grown by 36.6 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 2003 was \$1.2 billion. This represented 3.0 percent of Rhode Island Gross Domestic Product of \$39.3 billion. In 2005, Rhode Island's exports held steady at \$1.3 billion, or 2.9 percent of Rhode Island Gross State Product.



The most important exports, as shown in the pie chart above, were waste and scrap (18.2 percent), miscellaneous manufactured commodities (14.5 percent), computer and electronic products (11.7 percent), machinery, except electrical (11.3 percent) and chemicals (9.0 percent).

The table below provides greater detail of Rhode Island exports by industry for the 2003-2006 periods.

Rhode Island Exports by Industry, 2003 – 2006
(In thousands of dollars)

	2003	2004	2005	2006
Total All Industries	1,177,475	1,286,324	1,268,589	1,531,227
Computer and Electronic Products	258,505	254,324	171,883	178,440
Miscellaneous Manufactured Commodities	153,774	203,171	208,824	222,565
Waste and Scrap	127,122	157,435	158,093	278,142
Machinery, Except Electrical	122,495	128,390	133,527	173,341
Chemicals	123,247	122,716	130,465	137,339
Plastics and Rubber Products	90,561	83,045	83,600	87,900
Primary Metal Manufacturing	61,791	70,252	84,330	129,664
Fabricated Metal Products, NESOI	40,391	52,316	45,481	55,925
Electrical Equipment, Appliances and Component	56,904	51,387	56,096	68,688
Textiles and Fabrics	32,108	31,162	35,914	29,270
Transportation Equipment	18,073	30,687	44,073	49,361
Fish - Fresh, Chilled or Frozen & Other Marine Products	18,349	17,653	24,823	35,882
Paper	20,130	17,243	17,360	17,895
Food and Kindred Products	4,892	11,096	16,417	8,918
Nonmetallic Mineral Products	11,102	10,567	7,297	8,900
Textile Mill Products	10,151	9,019	7,824	4,622
Printing, Publishing and Similar Products	5,073	8,159	13,377	11,996
Special Classification Provisions, NESOI	6,938	7,619	8,367	10,558
Furniture and Fixtures	4,368	7,254	5,611	4,765
Apparel and Accessories	2,214	3,005	3,163	3,684
Leather and Allied Products	2,115	2,060	2,309	2,842
Goods Returned to Canada (Exports Only); U.S. Goods	2,017	1,416	800	268
Used or Second-Hand Merchandise	631	1,312	827	3,894
Petroleum and Coal Products	1,180	1,264	1,332	644
Minerals and Ores	1,024	1,235	1,529	2,856
Forestry Products, NESOI	670	1,035	405	712
Wood Products	1,108	863	1,209	504
Agricultural Products	406	304	3,223	358
Livestock and Livestock Products	94	170	167	660
Prepackaged Software	36	165	223	556
Beverages and Tobacco Products	6	-	40	78
Oil and Gas	0	0	4	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 2006, the number of housing permits authorized decreased by 24.2 percent in Rhode Island, compared to a decrease of 15.4 percent for New England and a decrease of 15.1 percent for the United States.

Housing Permits Authorized, 1992– 2006 (Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1992	2,637	-	36,977	-	1,099,000	-
1993	2,588	-1.9%	39,694	7.3%	1,208,000	9.9%
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	2,432	-6.2%	48,438	2.4%	1,889,000	7.9%
2004	2,548	4.8%	56,075	15.8%	2,058,000	8.9%
2005	3,020	18.5%	56,905	1.5%	2,161,000	5.0%
2006	2,289	-24.2%	48,117	-15.4%	1,835,000	-15.1%

U.S. Department of Commerce. Construction Statistics Division
Federal Reserve Bank of Boston

One of the strongest sectors of the state's economy has been housing. The current boom in housing in Rhode Island commenced in 1993 and was sustained up to 2000. 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.

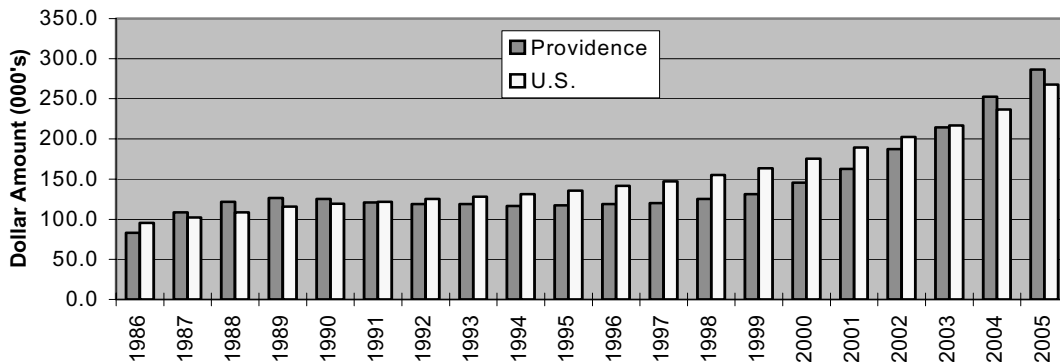
Existing Home Sales, 1992 - 2006 (In Thousands, SAAR)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1992	9.7	-	178.3	-	3,429.8	-
1993	10.7	10.3%	203.7	14.2%	3,731.3	8.8%
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	17.6	-11.1%	-	-	6,500.0	-8.0%

National Association of Realtors

On a seasonally adjusted annual rate basis, existing home sales for Rhode Island, New England, and the United States appear in the table above. Note that Rhode Island's housing market has tended to move in-step with the New England housing market, at least until recently. In 2001 and 2002, Rhode Island's housing market moved inversely with that of New England. In 2003, it fell in line once more with the New England housing market but at a less robust level, inverting again in 2004.

Average Annual Home Prices, 1986 - 2005



Fannie Mae and Freddie Mac; Federal Reserve Bank of Boston

Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 110.8 percent of the US average in 1988, by 1999 they had fallen to 80.5 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices have climbed relative to the U.S. average, attaining parity in 2003. In 2004 and 2005, Providence Metropolitan area home prices rose above the U.S. average and now stand at 107.0 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 \$489 million, up 34.0 percent from the previous year and in 2004 contracts declined again by 14.5 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 3.2 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	3.88%	0.46%
1991	413	13,889	124,119	2.97%	0.33%
1992	455	11,033	112,285	4.12%	0.41%
1993	390	10,789	114,145	3.61%	0.34%
1994	422	9,329	110,316	4.52%	0.38%
1995	388	9,374	109,004	4.14%	0.36%
1996	334	9,237	109,408	3.62%	0.31%
1997	275	9,152	106,561	3.00%	0.26%
1998	217	9,284	109,386	2.34%	0.20%
1999	312	9,456	114,875	3.30%	0.27%
2000	418	8,745	123,295	4.78%	0.34%
2001	283	11,094	135,225	2.55%	0.21%
2002	365	13,029	158,737	2.80%	0.23%
2003	489	17,544	202,589	2.79%	0.24%
2004	418	20,699	212,740	2.02%	0.20%
2005	418	13,200	236,986	3.17%	0.18%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, published in April 2005, travel and tourism revenue broke the four billion-dollar mark, at \$4.6 billion in 2003 and hit \$4.7 billion in 2004. The next report is expected to be published in the fall of 2007. This generated 57,837 jobs (9.6 percent of the State total) and \$1.1 billion in employee compensation (4.7 percent of the State total).

In 2004 an estimated 16 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.9 million spent the day in the State and 5.1 million stayed overnight. An additional 23.7 million travelers “passed through” the state en route to other destinations.

The highest daily expenditures in 2004 were by overnight convention visitors (\$232.75 per day), overnight business visitors (\$231.11 per day), and leisure visitors who stayed in hotels and motels (\$157.76).

Three of the five visitor indicators for 2004 recovered, while two continued to decline. The Newport Bridge Traffic was up 3.2 percent. Lodgings Tax revenues increased by 4.4 percent. Visits to the Newport Mansions were down 6.0 percent, commercial air passengers arriving and departing through T.F. Green Airport were up 6.4 percent, and I-95 Welcome Center Visitors declined by 8.9 percent.

Sales revenues in the travel and tourism industry increased by 3.2 percent in 2004. The retail trade and the transportation sectors had the largest percentage increases in 2004 at 3.4 percent each. Service sector receipts increased by 2.3 percent. The number of firms in the tourism industry grew by 3.0 percent in 2004, while wages increased by 3.4 percent and the number of employees increased by 0.9 percent.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 138.0 percent in 2003-04. For the 2003-04 academic year Rhode Island spent 38.0 percent more on public elementary and secondary education than the United States average: \$12,279 per student compared to a national average of \$8,899 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year. It should be noted that data for the 2003-2004 school year is the most recent available at this time from the National Center for Education Statistics.

Per Pupil Expenditure in Public Elementary and Secondary Schools
Academic Years 1989-90 – 2003-04
 (Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1989-90	6,368	4,980	127.9%
1990-91	6,343	5,258	120.6%
1991-92	6,546	5,421	120.8%
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,899	138.0%

U.S. Department of Education, National Center for Education Statistics

For the 2003-04 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 2003-04

(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	15,414	26	Virginia	8,761
2	New York	13,926	27	Oregon	8,640
3	New Jersey	13,776	28	Colorado	8,416
4	Rhode Island	12,279	29	Georgia	8,278
5	Connecticut	11,755	30	Washington	8,051
6	Vermont	11,675	31	Missouri	8,022
7	Massachusetts	11,583	32	Iowa	8,017
8	Alaska	11,074	33	Kentucky	7,973
9	Delaware	11,049	34	South Carolina	7,893
10	Maine	10,504	35	Louisiana	7,846
11	Pennsylvania	10,393	36	North Dakota	7,752
12	Wyoming	10,351	37	Texas	7,711
13	Maryland	10,140	38	California	7,708
14	Michigan	10,049	39	New Mexico	7,653
15	Wisconsin	9,834	40	South Dakota	7,607
16	Ohio	9,799	41	Arkansas	7,307
17	Illinois	9,710	42	Florida	7,269
18	New Hampshire	9,391	43	North Carolina	7,114
19	Hawaii	9,341	44	Tennessee	7,047
20	Nebraska	9,270	45	Arizona	6,898
21	West Virginia	9,076	46	Alabama	6,812
22	Indiana	9,033	47	Nevada	6,780
23	Minnesota	8,934	48	Mississippi	6,601
24	Kansas	8,804	49	Oklahoma	6,599
25	Montana	8,771	50	Idaho	6,559
			51	Utah	5,427

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 16,873 degrees and certificates, an increase of 0.6 percent over the 16,778 awards of the previous year. In 2004-2005 public institutions of higher education conferred 5,404 or 32.0 percent of all awards, while independent institutions awarded 11,469 or 68.0 percent.

APPENDIX B

Proposed Forms of Legal Opinion

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Date of Delivery

State of Rhode Island and Providence Plantations
State House
Providence, Rhode Island

Re: \$23,490,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (Information Technology Project - 2007 Series A)
(the "Certificates")

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2007 (the "Sublease") by and between Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined), as lessor (the "Lessor") and the State of Rhode Island and Providence Plantations, as lessee (the "Lessee"), and a Lease Agreement dated as of June 1, 2007 by and between the State of Rhode Island and Providence Plantations, as lessor, and Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of June 1, 2007 (the "Declaration of Trust") wherein Wells Fargo Bank, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Owners") of the \$23,490,000 Lease Participation Certificates (Information Technology Project - 2007 Series A) (the "Certificates") issued pursuant to the Declaration of Trust.

Based on our review of the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 15, 2007, relating to the sale of the Certificates (the "Official Statement"), and certain other documents and certifications delivered in connection with the foregoing and such other matters as we have deemed relevant, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute, legal, valid, binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes.

We call to your attention certain requirements of the Code regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. Our opinion is subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that the portion of the Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

State of Rhode Island and Providence Plantations
Date of Delivery

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

Very truly yours,

PARTRIDGE SNOW & HAHN, LLP

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Date of Delivery

State of Rhode Island and Providence Plantations
State House
Providence, Rhode Island

Re: \$12,735,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (Energy Conservation Project - 2007 Series B)
(the "Certificates")

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2007 (the "Sublease") by and between Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined), as lessor (the "Lessor") and the State of Rhode Island and Providence Plantations, as lessee (the "Lessee"), and a Lease Agreement dated as of June 1, 2007 by and between the State of Rhode Island and Providence Plantations, as lessor, and Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of June 1, 2007 (the "Declaration of Trust") wherein Wells Fargo Bank, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Owners") of the \$12,735,000 Lease Participation Certificates (Energy Conservation Project - 2007 Series B) (the "Certificates") issued pursuant to the Declaration of Trust.

Based on our review of the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 15, 2007, relating to the sale of the Certificates (the "Official Statement"), and certain other documents and certifications delivered in connection with the foregoing and such other matters as we have deemed relevant, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

State of Rhode Island and Providence Plantations
Date of Delivery

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute, legal, valid, binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes.

We call to your attention certain requirements of the Code regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. Our opinion is subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that the portion of the Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

State of Rhode Island and Providence Plantations
Date of Delivery

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

Very truly yours,

PARTRIDGE SNOW & HAHN, LLP

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APPENDIX B

Date of Delivery

State of Rhode Island and Providence Plantations
State House
Providence, Rhode Island

Re: \$9,100,000 State of Rhode Island and Providence Plantations Lease Participation
Certificates (State Vehicles Project - 2007 Series C) (the "Certificates")

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2007 (the "Sublease") by and between Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined), as lessor (the "Lessor") and the State of Rhode Island and Providence Plantations, as lessee (the "Lessee"), and a Lease Agreement dated as of June 1, 2007 by and between the State of Rhode Island and Providence Plantations, as lessor, and Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of June 1, 2007 (the "Declaration of Trust") wherein Wells Fargo Bank, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Owners") of the \$9,100,000 Lease Participation Certificates (State Vehicles Project - 2007 Series C) (the "Certificates") issued pursuant to the Declaration of Trust.

Based on our review of the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 15, 2007, relating to the sale of the Certificates (the "Official Statement"), and certain other documents and certifications delivered in connection with the foregoing and such other matters as we have deemed relevant, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute, legal, valid, binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes.

We call to your attention certain requirements of the Code regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. Our opinion is subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that the portion of the Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

State of Rhode Island and Providence Plantations
Date of Delivery

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

Very truly yours,

PARTRIDGE SNOW & HAHN, LLP

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APPENDIX C

Specimen Financial Guaranty Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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