NEW ISSUE

Ratings: *Moody's Investors Service, Inc.: "Aa3"*
Standard & Poor's: "AA-"
Fitch: "AA-"
See "Ratings" herein

In the opinion of Hinckley, Allen & Snyder 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 Lease Payments (as defined herein) distributable to Owners of the 2011 Series A Certificates as interest to the extent such Lease Payments are appropriated by the State and received by the Owners of the 2011 Series A 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 but is included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. The portion of each of the Lease Payments distributable to Owners of the 2011 Series A 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. Special counsel expresses no other opinion or any other tax consequences related to the acquisition, ownership or disposition of the 2011 Series A Certificates. See "TAX STATUS" and "APPENDIX B — Proposed Form of Legal Opinion" herein.

$31,980,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Energy Conservation Project – 2011 Series A)

Dated: Date of Delivery **Due:** April 1, as shown on the inside front cover

The 2011 Series A Certificates represent undivided interests in the lease payments (the "Lease Payments") to be made by the State of Rhode Island and Providence Plantations (the "State" or the "Lessee") under the Sublease dated as of July 1, 2011 between the Lessee and The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee (the "2011 Series A Sublease") as more fully described herein. The State is obligated under the 2011 Series A Sublease to make Lease Payments equal to the principal of and interest on the 2011 Series A Certificates. The State's obligation to make the related Lease Payments and any other obligations of the State under the 2011 Series A 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 2011 Series A Certificates will be made solely from amounts derived under the terms of the 2011 Series A Sublease, including the related Lease Payments, and amounts from time to time on deposit under the terms of the 2011 Series A Declaration of Trust dated as of July 1, 2011 (the "2011 Series A Declaration of Trust") executed in connection with the Certificates, as more fully described herein. The failure of the State to appropriate funds for the Lease Payments will result in termination of the 2011 Series A Sublease. Should the 2011 Series A Sublease terminate, there can be no assurance that the 2011 Series A Certificates will be repaid. Special counsel will express no opinion as to tax exemption upon termination of the 2011 Series A Sublease and, following termination of the 2011 Series A Sublease, transfer of the 2011 Series A 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 the 2011 Series A Certificates is payable on April 1 as set forth on the inside cover hereof and interest thereon is payable on October 1 and April 1 of each year commencing October 1, 2011. 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 2011 Series A Certificates are subject to special mandatory redemption and optional redemption prior to maturity as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES – Special Mandatory and Optional Redemption" herein).

The 2011 Series A 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 2011 Series A Certificates will be paid directly to DTC by the Trustee. (See "BOOK ENTRY ONLY SYSTEM" herein.) The 2011 Series A Certificates are subject to acceleration and redemption prior to maturity as described 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 2011 Series A 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 Hinckley, Allen & Snyder 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 Pannone Lopes Devereaux & West LLC. Certain matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as disclosure counsel, and by Hawkins Delafield & Wood LLP, as special disclosure counsel but solely with respect to the section titled "State Retirement Systems" in Appendix A. FirstSouthwest is serving as financial advisor to the State in this transaction. It is expected that delivery of the 2011 Series A Certificates in definitive form will be available for delivery to DTC in New York, New York on or about July 28, 2011.

Citi **Morgan Keegan**

Fidelity Capital Markets **Oppenheimer & Co. Inc.**

Ramirez and Co., Inc. **Roosevelt & Cross, Inc.** **TD Securities (USA) LLC**

July 20, 2011

MATURITY SCHEDULE

Maturities, Amounts, Interest Rates, Yields and CUSIPs

$31,980,000 Lease Participation Certificates
(Energy Conservation Project – 2011 Series A)

Maturity Date April 1	Principal Amount	Interest Rate	Yield	CUSIP†
2012	$1,910,000	2.000%	0.630%	76222WEW7
2013	2,745,000	2.000	1.200	76222WEX5
2014	2,820,000	3.000	1.550	76222WEY3
2015	2,920,000	3.000	1.880	76222WEZ0
2016	3,030,000	4.000	2.290	76222WFA4
2017	3,165,000	4.000	2.690	76222WFB2
2018	3,310,000	3.000	3.100	76222WFC0
2019	3,435,000	3.250	3.500	76222WFD8
2020	3,580,000	3.500	3.740	76222WFE6
2021	2,085,000	3.750	3.910	76222WFF3
2022	465,000	4.000	4.050	76222WFG1
2023	525,000	4.000	4.190	76222WFH9
2024	590,000	4.250	4.350	76222WFJ5
2025	660,000	4.250	4.460	76222WFK2
2026	740,000	4.500	4.570	76222WFL0

†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 2011 Series A Certificates. Neither the Underwriters, Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the 2011 Series A Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2011 Series A 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 2011 Series A Certificates.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters in connection with the offering contained herein, to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the State or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 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 any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

The Underwriters intend to offer the 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.

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

The information relating to The Depository Trust Company ("DTC") and the book-entry only system contained in this Official Statement have been furnished by DTC (see "BOOK-ENTRY ONLY SYSTEM" herein). No representation is made by the State as to the adequacy or accuracy of such information. The State has not made any independent investigation of DTC or the book-entry only system.

The Financial Advisor to the State 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

The cover page, the inside cover page hereof, this page and the appendices attached hereto are integral parts of this Official Statement.

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STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

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

APPOINTED OFFICIALS

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

SPECIAL COUNSEL

Hinckley, Allen & Snyder LLP
Providence, Rhode Island

DISCLOSURE COUNSEL

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

SPECIAL DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP

FINANCIAL ADVISOR

FirstSouthwest
Lincoln, Rhode Island

OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Relating to
$31,980,000 Lease Participation Certificates
(Energy Conservation Project – 2011 Series A)

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 $31,980,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2011 Series A) (the "2011 Series A Certificates" or the "Certificates").

The 2011 Series A Certificates

The 2011 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments ("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 "Project"). (See "THE PROJECTS – The Energy Conservation Projects" herein.)

The Project will be leased to the State pursuant to a Sublease dated as of July 1, 2011 as the same may be amended from time to time (the "2011 Series A Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2011 Series A Certificate Owners pursuant to the 2011 Series A Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2011 Series A Declaration of Trust dated as of July 1, 2011 as the same may be amended from time to time (the "2011 Series A Declaration of Trust"), all right to the Lease Payments under the 2011 Series A Sublease is set aside, granted and assigned to a grantor trust (the "2011 Series A Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2011 Series A Trustee") under the 2011 Series A Declaration of Trust, Lessor under the 2011 Series A Sublease and lessee under the 2011 Series A Lease (as herein defined).

The Project is being leased to the Lessor by the State pursuant to a lease (the "2011 Series A Lease") dated as of July 1, 2011. Assuming annual renewals, the 2011 Series A Lease expires on April 1, 2026. The Trustee's leasehold interest under the 2011 Series A Lease is subleased to the State under the 2011 Series A Sublease, and all right to the Lease Payments under the 2011 Series A Sublease is set aside, granted and assigned to the 2011 Series A Trust.

The 2011 Series A Certificates will be issued pursuant to the 2011 Series A Declaration of Trust. The proceeds of the sale of the 2011 Series A Certificates will be deposited in the 2011 Series A Trust. The proceeds of the 2011 Series A Certificates in the 2011 Series A Trust will be distributed into a 2011 Series A Project Account and a 2011 Series A Lease Payment Account established by the 2011 Series A Declaration of Trust. Amounts held in the 2011 Series A

Project Account will be disbursed by the Trustee to the State from the 2011 Series A Project Account to finance the Project and to pay related costs of issuance. (See "THE PROJECTS – The Energy Conservation Projects" herein.)

Pursuant to the 2011 Series A Declaration of Trust, the Trustee, upon written instructions from the State, may execute and deliver from time to time additional certificates ("Additional Certificates") to provide monies needed to construct extensions, improvements or additions to the Project, and to pay the costs of issuance of such Additional Certificates, provided, however, that the total principal amount of any Additional Certificates issued may not exceed $44,950,000.

SECURITY FOR THE CERTIFICATES

The 2011 Series A Certificates are payable from (i) Lease Payments received by the Trustee from the State with respect to the 2011 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2011 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2011 Series A Certificates and investment earnings on amounts on deposit in the 2011 Series A Trust; and (iii) proceeds from the disposition of the Project upon the occurrence of an Event of Default under the 2011 Series A Sublease or upon termination of the 2011 Series A Sublease pursuant to non-appropriation of funds by the State. The 2011 Series A Sublease provides for Lease Payments payable at times and in amounts equal to the principal of and interest on the 2011 Series A Certificates. The Lease Payments will be made directly to the Trustee.

The State covenants in the 2011 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 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 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 2011 Series A Sublease provides an initial term commencing July 1, 2011 and terminating June 30, 2012, with annual renewals on July 1 of each year, commencing July 1, 2012, with a final 2011 Series A Sublease term commencing July 1, 2025 and terminating April 1, 2026 (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 2011Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2011 Series A Sublease term or any 2011 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all Lease Payments due within the next six-month period, the 2011 Series A Sublease shall be deemed renewed with respect to the 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 Lease Payments for such six-month period.

If a 2011 Series A Sublease term terminates without a renewal of the 2011 Series A Sublease for a succeeding 2011 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2011 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2011 Series A Sublease then at the option of the Lessor the 2011 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 2011 Series A Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2011 Series A Sublease, the 2011 Series A Lease Payment which would have been due on such date if the 2011 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2011 Series A Sublease is reinstated.

In the event the 2011 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 Project except as to portions of Lease Payments agreed upon for Fiscal Years in which sufficient funds had been appropriated. Under such circumstances, the State shall deliver the Project to the Trustee and the Trustee has the right to lease the Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2011 Series A Certificates. **UPON ANY SUCH OTHER SUBLEASE OF THE PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2011 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2011 SERIES A CERTIFICATES. THE PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.**

THE PROJECT

The proceeds from the Certificates of Participation will be utilized for the implementation of several energy conservation projects in the State via “Energy Performance Contracts” (EPCs). 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 2011 Series A Certificates will finance the execution of EPCs at the University of Rhode Island, the Community College of Rhode Island and State of Rhode Island Department of Administration.

Energy Conservation- University of Rhode Island

The Series A Certificates proceeds will finance the cost of capital improvements pursuant to an EPC with an ESCO resulting in energy-saving improvements in physical plant infrastructure throughout the University of Rhode Island system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings over a twelve year period. A total of $12,600,000 has been authorized for this project. $5,590,000 will be funded through the issuance of the 2011 Series A Certificates. There may not be additional funding required for this project but, if required, the State anticipates funding the balance of this project through the issuance of Additional Certificates of participation in FY 2012 or later.

Energy Conservation – Pastore Center and Zambarano Campus Facilities

The Series A Certificates proceeds will finance two EPCs with two separate ESCOs for various facilities at the Pastore Center in Cranston and the Zambarano Campus in Foster, including improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. Infrastructure 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 at these locations. A total of $53,100,000 has been authorized for this project. $19,830,000 will be funded through the issuance of the 2011 Series A Certificates. The State anticipates funding the balance of this project through the issuance of Additional Certificates of participation in FY 2012 or later.

Energy Conservation - Community College of Rhode Island

The Series A Certificates proceeds will finance an EPC with an ESCO for the Community College of Rhode Island to provide energy-saving improvements in physical plant infrastructure throughout the Community College of Rhode Island system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. A total of $11,500,000 has been authorized for this project. $6,560,000 will be funded through the issuance of the 2011 Series A Certificates. The State anticipates funding the balance of this project through the issuance of Additional Certificates of participation in FY 2012 or later.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

Sources:	
Principal Amount of Certificates	$31,980,000.00
Net Original Issue Premium	517,176.00
Total	$32,497,176.00
Uses:	
Project Account Deposit	$32,115,137.19(1)
Cost of Issuance	215,896.12(2)
Underwriters' Discount	166,142.69
Total	$32,497,176.00

(1) Includes $352,137.19 for capitalized interest; exclusive of costs of issuance
(2) Includes legal fees, printing costs, etc.

DESCRIPTION OF THE STATE

See "APPENDIX A -- Information Statement of the State of Rhode Island and Providence Plantations", dated July 13, 2011 for a description of the State, its budgetary process and financial profile. The Securities and Exchange Commission (the "SEC") has opened a non-public formal investigation into the disclosures by the State regarding the State Employees' Retirement System. The State is fully cooperating with the investigation. See "Appendix A -- Information Statement of the State of Rhode Island and Providence Plantations."

DESCRIPTION OF THE CERTIFICATES

The 2011 Series A Certificates represent an undivided interest in the Lease Payments to be made by the State to the Trustee under the 2011 Series A 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 April 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 October 1 and April 1 of each year commencing October 1, 2011 (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

The 2011 Series A Certificates maturing on or before April 1, 2021 are not subject to redemption prior to their date of maturity. The 2011 Series A Certificates maturing on and after April 1, 2022 are subject to optional redemption as a whole or in part at anytime on and after April 1, 2021 and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as defined and provided for in the 2011 Series A Sublease, in such order of maturity and in such amounts as directed by the Lessee, at a redemption price equal to the principal amount of such Certificates to be redeemed plus accrued interest thereon 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 Trustee from: (i) the reletting of the Project in connection with the enforcement of the Trustee's rights under the 2011 Series A Sublease; (ii) the proceeds of the insurance payable with respect to the damage, destruction, theft or other loss of the Project which are not applied to repair or replacement of the Project in accordance with the 2011 Series A Sublease; and (iii) any amounts transferred from the 2011 Series A Project Account to the 2011 Series A Redemption Account under the Series 2011 A Declaration of Trust upon completion of the Project.

Selection for Redemption

If less than all of the outstanding Certificates of any maturity 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 selected by the Trustee by lot or any customary manner of selection as determined by the Trustee.

Notice of Redemption

When redemption of the Certificates is required pursuant to the 2011 Series A Declaration of Trust, the 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 under this heading has been furnished by The Depository Trust Company ("DTC"), New York, New York. None of the State nor the Underwriters makes any representations as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the 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 the Certificates, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 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 ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 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. Beneficial Owners of the Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

Redemption proceeds and 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 Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or 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, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 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.

None of the State, the Underwriters, the Trustee 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, premium, if any, or interest 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 Lease Payments

The following is a schedule of Lease Payments of Base Rent (as hereinafter defined) due under the 2011 Series A Sublease in each fiscal year, and attributed to the 2011 Series A Certificates, assuming that the 2011 Series A Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2012	$1,910,000	$ 711,146.25	$2,621,146.25
2013	2,745,000	1,015,350.00	3,760,350.00
2014	2,820,000	960,450.00	3,780,450.00
2015	2,920,000	875,850.00	3,795,850.00
2016	3,030,000	788,250.00	3,818,250.00
2017	3,165,000	667,050.00	3,832,050.00
2018	3,310,000	540,450.00	3,850,450.00
2019	3,435,000	441,150.00	3,876,150.00
2020	3,580,000	329,512.50	3,909,512.50
2021	2,085,000	204,212.50	2,289,212.50
2022	465,000	126,025.00	591,025.00
2023	525,000	107,425.00	632,425.00
2024	590,000	86,425.00	676,425.00
2025	660,000	61,350.00	721,350.00
2026	740,000	33,300.00	773,300.00
Total	31,980,000	6,947,946.25	38,927,946.25

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 2011 Series A Sublease. The State is not required to appropriate funds to make payments required under the 2011 Series A 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.

The 2011 Series A Certificates are payable only from amounts to be derived under the terms of the 2011 Series A Sublease, related Lease Payments and amounts on deposit under the 2011 Series A Declaration of Trust.

Special Mandatory and Optional Redemption or Acceleration Prior to Maturity

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. In addition, the 2011 Series A Certificates are subject to optional redemption on and after April 1, 2021. (See "DESCRIPTION OF THE CERTIFICATES – Optional Redemption and Special Mandatory Redemption," above and "SUMMARY OF CERTAIN PROVISION OF THE DECLARATION 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 Project, which constitute part of the security for the 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 Project also consist of improvements to real estate. Such assets incorporated into the real estate would not be available to the Trustee to re-let in the event of non-appropriation by the State. Certain aspects of the 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

The 2011 Series A Sublease is for an initial period ending June 30, 2012, 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 2011 Series A Sublease. The State is not obligated to renew the 2011 Series A 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 SUBLEASE - Term and Renewals" herein.) See the matter discussed in the section entitled "State Indebtedness – Obligations For Which Appropriation Has Not Been Made" in the State Information Statement attached hereto as Appendix A regarding the failure of the General Assembly to appropriate funds to satisfy an obligation of the Rhode Island Economic Development Corporation under a limited recourse guaranty provided to the Employee's Retirement System of Rhode Island where the Governor has failed to request the General Assembly to make such appropriation.

Certain Matters Relating to Enforceability of the Lease and the Sublease

The obligations of the State under the 2011 Series A Lease and the 2011 Series A Sublease 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. The

2011 Series A Declaration of Trust does not provide for the payment of any additional interest in the event the interest on the Certificates becomes includable in gross income for federal income tax purposes.

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

Special Counsel will express no opinion as to the effect that termination of the 2011 Series A 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.

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

Special Counsel also expresses no opinion as to the transferability of the Certificates under federal and state securities laws after termination of the 2011 Series A 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 2011 SERIES A SUBLEASE

Term and Renewals

The 2011 Series A Sublease is effective as of July 1, 2011 and will terminate on June 30, 2012. The 2011 Series A Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year. The 2011 Series A Sublease may be renewed beyond its termination date for such periods as any amendments to the 2011 Series A Sublease may provide.

If any right to renew the 2011 Series A Sublease is exercised, the renewed 2011 Series A 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 2011 Series A Sublease or any term of the 2011 Series A Sublease thereafter, there are lawfully appropriated funds enabling the payment of all Lease Payments due within the next six-month period, the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease terminates without a renewal for a succeeding 2011 Series A Sublease term, and if within sixty (60) days after such date of termination there are lawfully appropriated funds which would have caused the 2011 Series A 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 2011 Series A Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding term of the 2011 Series A Sublease. If there is a Lease Payment date between the date of termination and date of reinstatement of the 2011 Series A Sublease, the Lease Payment which would have been due on such date if the 2011 Series A Sublease had not been terminated shall become immediately due and payable on the date the 2011 Series A 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 SUBLEASE -- Non-appropriation of Funds" herein.

Rent

The State under the 2011 Series A Sublease agrees to pay the payments specified in the 2011 Series A 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 2011 Series A 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 under the 2011 Series A Sublease 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 and (ii) the Rebate Amount, as defined in the Tax Certificate (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 by the State 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 2011 Series A 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 2011 Series A Sublease, the 2011 Series A 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.

Intent of State Regarding Payment of Lease Payments

The State reasonably believes that funds will be available to make all Lease Payments with respect to the 2011 Series A Sublease during each term of the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease for all terms of the 2011 Series A Sublease if funds are legally available therefor and the State represents that the uses of the Project are essential to their 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 2011 Series A Sublease due for the next succeeding 2011 Series A 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 2011 Series A 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 2011 Series A Sublease, the 2011 Series Declaration of Trust provides that the Trustee, upon written notification of such non-appropriation from the State with respect to the 2011 Series A Sublease, shall within sixty-five (65) days transfer to the 2011 Series A Redemption Account (as hereinafter defined) all amounts in the 2011 Series A Project Account and the 2011 Series A 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.

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 2011 Series A Sublease term.

Insurance

The State is required at all times during the term of the 2011 Series A 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

On and after April 1, 2021 pursuant to the 2011 Series A Sublease, upon sixty (60) days prior written notice from the State to the 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 2011 Series A Sublease, on any Rent Prepayment Price Date (as defined in the 2011 Series A Sublease) in whole or in part by paying to the Trustee, on such date, the payments then due under the 2011 Series A Sublease together with the Rent Prepayment Price being paid on such date along with instructions to the Trustee as to how such Rent Prepayment Price shall be applied by the Trustee in its capacity as Trustee for the Owners of 2011 Series A Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment Price and the conditions for defeasance under the 2011 Series A Sublease, the Trustee will transfer any and all of its right, title and interest in the Project, as is, to the State, without warranty, express or implied, except that the Trustee will warrant to the State that the Project is free and clear of any liens created by the Trustee.

Events of Default

The term "Event of Default", as used in the 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A Sublease or the 2011 Series A 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 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 2011 Series A Sublease and all remaining payments due under the 2011 Series A Sublease during the remaining term of the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease or to recover damages for the breach of the 2011 Series A Sublease or to rescind the 2011 Series A Sublease as to the Project.

The Trustee shall be under no obligation to pursue any remedies in the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease, when it is finally adjudicated by a court of competent jurisdiction that the State is in default of the 2011 Series A Sublease or any amendment thereto.

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

General

The 2011 Series A 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 2011 Series A 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 2011 Series A Declaration of Trust grants and assigns to the Trustee all of the Lessor's right, title and interest in, to and under the 2011 Series A Sublease.

Certificates

Simultaneously with the receipt of the 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A Certificates are also subject to optional redemption as described in "DESCRIPTION OF CERTIFICATES – *Optional Redemption*".

Trust Fund

There is established with the Trustee a special trust fund pursuant to the 2011 Series 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 2011 Series A Project Account, the 2011 Series A Lease Payment Account, the 2011 Series A Rebate Account, and the 2011 Series A Project 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 2011 Series A 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 2011 Series A Project Account after the completion of the Project shall be transferred at the direction of the State, to the 2011 Series A Lease Payment Account or the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease.

Payments under the 2011 Series A 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 2011 Series A Declaration of Trust shall have been paid and all expenses of the Trustee have been paid, any balance remaining in the 2011 Series A Lease Payment Account shall be paid to the State.

Establishment and Application of Rebate Account

A separate account will be established with the Trustee 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". Moneys in the Rebate Account shall not be a part of the Trust Fund and shall not be subject to the trusts under the Trust Fund.

There shall be paid into the 2011 Series A 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 2011 Series A 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 "2011 Series A Redemption Account".

Moneys shall be deposited in the 2011 Series A Redemption Account on the payment of all or a part of the Rent Prepayment Price by the Lessee, pursuant to the Series 2011 A Sublease, or upon termination of the 2011 Series A Sublease in the Event of Non-appropriation or upon an Event of Default or in the event of a special mandatory redemption, sinking fund redemption, optional redemption, or upon acceleration.

Moneys in the 2011 Series A 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 2011 Series A Declaration of Trust, and any balance remaining in the 2011 Series A Redemption Account shall be paid to the State and such 2011 Series A 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 written 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 Housing 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) (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")

Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

4. Farm Credit System

Consolidated system wide 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 "Aam" or "AAm-G" and if rated by Moody's rated "Aa2" or better, including, without limitation, any 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 bondholders 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) Commercial paper (having original maturities of not more than 270 days) rated “Prime - 1” by Moody’s and “A-1+” or better by S&P.

(h) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least “A3” by Moody’s and at least “A-“ by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(i) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated “A-1+” by S&P and “MIG-1” by Moody’s.

(j) Special revenue bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (j) above and rated “AA-“ or better by S&P and Aa3” or better by Moody’s.

(k) 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” by Moody’s and “A-1+” or better by S&P.

(l) 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.

Repos must satisfy the following criteria:

1. <u>Repos must be between the Lessee and a dealer bank or securities firm</u>

    a. Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody’s, or

    b. Banks rated “A” or above by S&P and Moody’s

2. <u>The written Repo contract must include the following:</u>

    a. Securities which are acceptable for transfer are:

        (i) Direct U.S. governments, or

        (ii) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

    b. <u>The term of the Repo may be up to 30 days</u>

    c. The collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. The Trustee has a perfected first priority security interest in the collateral.

e. Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

f. Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.

g. Valuation of Collateral. Investments shall be valued as follows:

(i) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(ii) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the Repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Trustee:

Repo meets guidelines under state law for legal investment of public funds.

(m) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P meeting the following requirements (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:

1. the municipal obligations are (a) not subject to redemption prior to maturity or (b) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

2. the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

3. the principal of and interest on the U.S. Treasury Obligations (plus an cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest and premium, if any, due and to become due on the municipal obligations ("Verification Report");

4. the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of municipal obligations;

5. no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

6. the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

Events of Default

An Event of Default under the 2011 Series A 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 2011 Series A 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 2011 Series A Sublease and such failure is not cured within thirty (30) days after written notice thereof from the Trustee; or

(c) The 2011 Series A 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 2011 Series A 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 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 2011 Series A 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 2011 Series A 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 2011 Series A Sublease term to be immediately due and payable.

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 2011 Series A Declaration of Trust, any remedy available to the Trustee under the 2011 Series A Sublease.

If all or a portion of the Project has been leased or subleased pursuant to the 2011 Series A 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 2011 Series A Declaration of Trust (i) such payments shall be deposited in the 2011 Series A 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 to do so 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 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A Declaration of Trust; and further provided that the Trustee be provided with indemnification satisfactory to the Trustee.

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 2011 Series A 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 2011 Series A 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 2011 Series A Declaration of Trust, and to the initiation of any action or cause of action for the enforcement of the 2011 Series A 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 2011 Series A 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 2011 Series A 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.

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 2011 Series A 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 a majority 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 2011 Series A Sublease, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Amendments and Supplemental Amendments

The Trustee may, without the consent of, or notice to, any Certificate Owner, amend the 2011 Series A 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 2011 Series A Declaration of Trust, additional revenues;

(d) To add to the covenants and agreements of the Trustee contained in the 2011 Series A 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 2011 Series A Lease, the 2011 Series A Sublease and the Certificates issued under the 2011 Series A Declaration of Trust; and

(f) In the case of the 2011 Series A Declaration of Trust, to issue Additional Certificates pursuant to the 2011 Series A Declaration of Trust.

Exclusive of the aforementioned types of amendments and subject to the terms and provisions contained in the 2011 Series A 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 2011 Series A 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 the 2011 Series 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 2011 Series A Sublease which in its judgment is not to the prejudice of the Trustee or the Owners of the Certificates. Except as permitted under the 2011 Series A Declaration of Trust with respect to the issuance of Additional Certificates, the Trustee shall not consent to any amendment, change or modification of the 2011 Series A Sublease which would change the amount of the Lease Payments required to be paid under the 2011 Series A Sublease, or the Lease Payment Dates under the 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A 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 2011 Series A Declaration of Trust and/or the 2011 Series A Sublease, as the case may be, shall be and is deemed to be modified and amended in accordance with such amendment.

Defeasance of 2011 Series A Certificates

If and when any 2011 Series A Certificates issued under the 2011 Series A 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 2011 Series A Certificates shall be paid, or provision shall have been made as set forth in the 2011 Series A Declaration of Trust, 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 2011 Series A Certificates shall have been paid or provided for, then and in that case, the right, title and interest of the Trustee under the 2011 Series A Declaration of Trust relating to the 2011 Series A Certificates shall thereupon cease, terminate and become void, and the Trustee shall assign and transfer to the State, all property (in excess of the amounts required for the foregoing) then held by the Trustee as to such series of 2011 Series A 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 2011 Series A Sublease, the 2011 Series A Lease, the 2011 Series A Declaration of Trust, or the 2011 Series A 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 presently 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 have a material adverse affect on its financial condition or its ability to perform its obligations to the Certificate holders.

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the 2011 Series A Sublease and the Lease and will render an opinion to the effect that the State possesses the authority necessary to enter into the 2011 Series A Sublease and the 2011 Series A Lease and that the 2011 Series A Sublease and the 2011 Series A 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 Hinckley, Allen & Snyder LLP, Providence, Rhode Island, special counsel to the State, by Adler Pollock & Sheehan P.C., Providence, Rhode Island, disclosure counsel to the State, and by Hawkins Delafield & Wood LLP, as special disclosure counsel but solely with respect to the section titled "State Retirement Systems" in Appendix A. Certain legal matters will be passed upon for the Underwriters by their counsel, Pannone Lopes Devereaux & West LLC.

TAX STATUS

Hinckley, Allen & Snyder LLP is of the opinion that, under existing laws, regulations, rulings, and court decisions and assuming, among other matters, continuing compliance with certain tax covenants described herein, 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 excluded from gross income of such Owners for federal income tax purposes under Section 103 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, although such amounts may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Hinckley, Allen & Snyder LLP has not opined as to taxability under the laws of any state other than Rhode Island. (See "APPENDIX B - Proposed Form of Legal Opinion").

Hinckley, Allen & Snyder LLP is also of the opinion that the portion of the Lease Payments designated as Interest on the Certificates will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, although such amounts are included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

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 Hinckley, Allen & Snyder 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. Hinckley, Allen & Snyder LLP expresses no opinion regarding any other federal, state or local tax consequences with respect to the Certificates. Hinckley, Allen & Snyder LLP renders its opinion under existing laws, regulations, rulings, and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Hinckley, Allen & Snyder LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of that portion of the Lease Payments designated as Interest, or under state or local tax law.

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, placement agents 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 with respect to the treatment of OID for federal income tax purposes including various special rules relating thereto, and the state and local tax consequences of acquiring, holding and disposing of Discount Certificates.

Premium

Certain of the Certificates (the "Premium Certificates") may be offered and sold to the public at a purchase price that reflects a premium over the sum of all amounts payable on the Certificate. In general, under Section 171 of the Code, an owner of a Premium Certificate must amortize the certificate premium over the remaining term of the Premium Certificate, based on the owner's yield over the remaining term of the Premium Certificate, determined based on constant yield principles. An owner of a Premium Certificate must amortize the certificate premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the certificate premium allocable to that period. In the case of a tax-exempt Premium Certificate, if the certificate premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of the Premium Certificate may realize a taxable gain upon disposition of the Premium Certificate even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Certificates should consult their own tax advisors regarding the treatment of certificate premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition 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, individuals otherwise eligible for the earned income tax credit, 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.

HINCKLEY, ALLEN & SNYDER 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 2011 SERIES A 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 Citigroup Global Markets, Inc., as representative of the Underwriters listed on the cover page hereof (the "Underwriters"). The aggregate offering price of the 2011 Series A Certificates to the public is $32,497,176.00 and the Underwriters have agreed, subject to certain conditions, to purchase the 2011 Series A Certificates at a purchase price of $32,331,033.31 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 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.

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

FINANCIAL ADVISOR

The State has retained FirstSouthwest (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.

RATINGS

The Certificates are expected to be assigned ratings by Moody's Investors Service, Inc. ("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"). Moody's", S&P, and Fitch have assigned underlying ratings of "Aa3", "AA-" and "AA-" respectively.

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 shall not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State, through the State Budget Office, will undertake in a written agreement ("Continuing Disclosure Certificate") for the benefit of the owners of Certificates to provide in electronic format to the

Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board ("MSRB"), as the sole repository for the central filing of electronic disclosure pursuant to the Rule the following information.

The State shall provide (a) not later than the end of each calendar year, commencing with December 31, 2011, 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 any such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule. The State shall provide, in a timely manner, to the MSRB, notice of a failure to satisfy the requirements of this paragraph.

The State shall provide or cause to be provided, within ten (10) business days after the occurrence thereof, to the MSRB notice of the occurrence of any of the following events with respect to the 2011 Series A Certificates:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2011 Series A Certificates or other material events affecting the tax status of the 2011 Series A Certificates;
- Modifications to the rights of beneficial owners of the 2011 Series A Certificates, if material;
- Certificate calls, if material, and tender offers;
- Defeasances;
- The release, substitution, or sale of property securing repayment of the 2011 Series A Certificates, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the State;
- The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the

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

- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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 2011 Series A Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any event except those listed above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any beneficial owners of the 2011 Series A Certificates, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the beneficial owners of 2011 Series A Certificates, (d) to modify the content, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of any applicable state legislation responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the 2011 Series A Certificates, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the 2011 Series A Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the 2011 Series A Certificates affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers such as the State to provide all or any portion of the information the State has agreed to provide pursuant to this Continuing Disclosure Certificate with respect to securities such as the 2011 Series A Certificates, the obligation of the State to provide such information also shall cease immediately.

The purpose of the State's undertaking in the Continuing Disclosure Certificate is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the 2011 Series A Certificates, from time to time, to specifically enforce the State's obligations under the Continuing Disclosure Certificate, not to create new contractual or other rights for the original purchasers of the 2011 Series A Certificates, any registered owner or beneficial owner of the 2011 Series A Certificates, any municipal securities broker or dealer, any potential purchaser of the 2011 Series A 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 provision of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations under the Continuing Disclosure Certificate and not for money damages in any amount. Any failure by the State to comply with any provision of such undertaking shall not constitute an event of default with respect to the 2011 Series A Certificates.

Except as noted below, the State has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule for the past five years. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the State relating solely to the bonds of the Rhode Island Refunding Bond Authority. The State is no longer subject to these undertakings as no bonds issued by the Rhode Island Refunding Bond Authority are currently outstanding. The Rhode Island Refunding Bond Authority made final payment on its outstanding bonds in fiscal year 2010.

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

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

MISCELLANEOUS INFORMATION

The descriptions herein of the 2011 Series A Sublease, the 2011 Series A Lease, and the 2011 Series A Declaration of Trust are qualified in their entirety by reference to such documents, and the descriptions herein of the 2011 Series A Certificates are qualified in their entirety by reference to the form thereof and the information with respect thereto included in the 2011 Series A Declaration 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 July 13, 2011 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2010. 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/ Gina M. Raimondo
General Treasurer

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

July 20, 2011

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: July 13, 2011

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

Since 1985, cities and towns had been prohibited by Section 44-5-2 of the General Laws of the State from imposing a tax levy or tax rate, which increases by more than 5 ½ percent over the previous year's levy or rate. The statute authorized tax levy or tax rate increases of greater than 5 ½ percent in the event that the amount of debt service required to service present and future general obligation debt of the city or town increased at a rate greater than 5 ½ percent. The statute also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation of property is being implemented. Provisions of Section 44-5-2 also included authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arose and was certified by the State Auditor General. In such an emergency situation, the levy in excess of a 5 ½ percent increase had to be approved by a majority of the city or town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligation bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

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

Status of Pension and OPEB Plans Administered by Municipalities

The Office of the Auditor General completed an initial review in 2007 of the fiscal health of the various locally-administered defined benefit pension plans covering Rhode Island municipal employees. An updated review was completed in March 2010, which also includes an assessment of the status of other post-employment benefit plans offered by municipalities. Twenty-four communities have created 36 pension plans, which they administer for their employees. The State Auditor General considered 23 locally administered pension plans to be at risk, seven were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. The collective funded ratio of the plans decreased from 45 percent, as reported in July 2007, to 43 percent, currently. Total assets collectively held by these 36 pension plans were $1.4 billion (as reported in their fiscal 2009 audit reports). The collective unfunded actuarial liability for future benefits under these locally-administered plans was approximately $1.9 billion (as of the most recent actuarial valuation referenced in their June 30, 2009 financial statements).

The Office of the Auditor General's March 2010 report further summarized the status of other post-employment benefit (OPEB) plans administered by municipalities for their employees. The actuarial value of assets held by these plans was $18 million and the collective unfunded actuarial accrued liability for future benefits was nearly $2.4 billion (as of the most recent actuarial valuation referenced in their June 30, 2009 financial statements). The collective funded ratio of the locally-administered OPEB plans was less than 1%. The State Auditor General made a number of recommendations to improve the funded status of the locally-administered pension and Other Post Employment Benefits (OPEB) plans.

In early calendar year 2010, the Division of Municipal Finance in the Department of Revenue completed a "Report to Measure the Fiscal Stress and Financial Condition of Rhode Island Municipalities." This report was prepared under the guidance of the Municipal Fiscal Stress Task Force created by an Executive Order of the Governor. Two of the indicators included in the report related to pension liabilities and success in paying the Annual Required Contribution (ARC). The report indicated that as of June 30, 2008, unfunded municipal pension liabilities totaled $1.76 billion dollars and that eleven of thirty-nine municipalities had failed to pay all of their ARC during the FY 2008 period, and that two additional communities were marginally deficient.

State Oversight for Municipal Fiscal Stability

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

The Fiscal Stability Act was a response to a display of fiscal weakness in several communities, including the filing of a petition for judicial receivership by the City of Central Falls in the Rhode Island Superior Court on May 18, 2010. Ratings for general obligation debt issued by Central Falls had been downgraded to below investment grade. The State has a compelling interest in the fiscal health of Rhode Island municipalities. The Fiscal Stability Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support for and control over municipalities depending on the particular financial circumstances. The Fiscal Stability Act repeals Chapter 45-9 relating to Budget Commissions in its entirety and creates three levels of State oversight and control. The three levels are: fiscal overseer, budget commission, and state receiver. If the Director of Revenue determines in consultation with the Auditor General that a city or town is facing a fiscal emergency and that circumstances do not allow for the appointment of a fiscal overseer or a budget commission, the Director of Revenue may appoint a receiver without first having appointed a fiscal overseer or budget commission. The Fiscal Stability Act also prohibits municipalities from filing for or being placed into, either voluntarily or involuntarily, judicial receivership and clarifies that the Superior Court has only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the Director of Revenue and to take such further actions as may be necessary to ensure an orderly transition. The Fiscal Stability Act applied retroactively to May 15, 2010.

In response to the passage of the Fiscal Stability Act, the City of Central Falls and the State negotiated a Consent Order, which was filed with the Rhode Island Superior Court on June 18, 2010. The City withdrew its Petition for Appointment of a judicial receiver and, in accordance with the terms of the Act, entered into a transition period during which control of the City's finances would shift from the temporary (court-appointed) receiver to a non-judicial state-appointed receiver. On July 16, 2010, the Director of Revenue for the Rhode Island Department of Revenue appointed retired Superior Court Judge Mark A. Pfeiffer as receiver of the City (the "State Receiver"). The State Receiver filed a report with the Governor of the State on December 14, 2010, which identified a variety of possible long-term solutions available to improve the City's finances. The State Receiver then filed a Supplemental Report of the State Receiver on February 10, 2011. Those reports can be found on the City's website at www.centralfallsri.us.

On February 1, 2011, Governor Lincoln D. Chafee announced the appointment of former Supreme Court Justice Robert G. Flanders, Jr., Esq. as the successor State Receiver. Under the provisions of the Fiscal Stability Act, the State Receiver has the authority to exercise any function or power of any municipal officer of the City of Central Falls and the power to file for bankruptcy. On or about March 27, 2011, the Rhode Island Supreme Court issued a decision finding that the Fiscal Stability Act is constitutional. Robert G. Flanders, Jr., Esq. continues to serve as the State Receiver for the City.

The Governor's proposed FY 2012 budget included an appropriation for the City of Central Falls over two years, $1.8 million in FY 2011 and $4.9 million in FY 2012. In December 2010, the Receiver issued a report detailing the structural fiscal problems plaguing the City and outlining a variety of reform measures for consideration to restore the City to long-term fiscal stability. Since that time, the City's FY 2010 audit has been completed, identifying an actual year-end deficit of $2.4 million. The Receiver has identified $623,000 in City assets which may be applied to reduce this deficit, leaving a balance of approximately $1.8 million. In addition, the Receiver initially forecasted a deficit of approximately $4.9 million for FY 2012 and requested the State appropriation to avoid a liquidity crisis in early FY 2012. Since that time, the City's FY 2012 budget as adopted reflects a structural deficit of $5.1 million, and the adopted State FY 2012 budget includes no appropriation to Central Falls. The City currently has severely limited access to financing and cannot otherwise raise the revenues necessary in the short term to resolve these deficits. As a result, the Receiver is in the process of formulating a proposed alternative budget addressing the City's structural deficit. Upon completion of the proposed alternative budget, the Receiver anticipates that it will be necessary to request significant concessions from all creditors of the City, including employees, retirees, and vendors. If the necessary concessions are not obtained, the Receiver has indicated that the City may have no choice but to file for bankruptcy protection.

Bills were introduced during the last legislative session at the request of the Department of Revenue to address issues that have arisen during the course of the Central Falls receivership. Two of those bills, S 0614 SUB A and its companion H 5736 SUB A would amend two sections of current law (R.I. Gen. Laws §45-12-1 and R.I. Gen. Laws §45-12.22.4) to (i) permit a pledge of general fund revenues of cities and towns to the payment of general obligation debt and lease appropriation debt of cites and towns; (ii) make any municipal or district employee or official who intentionally violates the law personally liable to the city, town or district for amounts not expended in accordance with such appropriations and make said employee or official subject to removal; and (iii) prohibit a municipality from issuing pension and OPEB debt without approval of the State Auditor General and Director of the Department of Revenue. The purpose of the bills is to enhance capital market access for cities, towns and districts. Both bills were passed by the General Assembly. It is anticipated that both bills will be either signed into law by the Governor or take effect without his signature. The bills would take effect upon passage and apply to general obligation bonds and other financing obligations issued by cities, towns and districts including those issued prior to the date of enactment.

Two other bills, S 0619 SUB A and its companion H 5922 as amended would "clean up" some provisions of the Fiscal Stability Act which was passed during the last legislative session, and would (i) clarify that the receiver – as well as budget commissions – is entitled to exercise all power that elected officials may exercise under applicable laws; (ii) prohibit expenditures by elected officials in excess of appropriations and provide that any elected official who intentionally violates that provision will be personally liable for those expenditures; (iii) clarify that powers of the city or town council exercisable by resolution or ordinance will be exercised by order of the receiver; (iv) provide that the state shall indemnify fiscal overseers, budget commission members and receivers arising out of actions taken by them except in instances of malfeasance or gross negligence and provide that said individuals will not be subject to any civil liability for any actions taken or omitted in the course of performing their official duties and that they shall not be subject to prosecution or have any liability for misdemeanor violations of criminal laws for actions taken or omitted in the course of performing official duties under chapter 45-9; (v) provide that any person who violates the law or ignores a written demand made by a fiscal overseer, budget and review commission, receiver or administration and finance officer would be required to pay the reasonable attorney fees incurred to seek enforcement or compliance with the written demand.; and (vi) clarify that the law would not pre-empt or restrict the powers and remedies available to a state-appointed receiver under Chapter 9 of Title 11 of the United States Code and the receiver's ability to exercise such powers and remedies on a municipality's behalf in such a federal proceeding.

Local Tax Relief

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

The other local property tax levy reduced was the local levy on motor vehicles and trailers. This tax was to be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there was no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and for FY 2009, the first $6,000 in value of a vehicle was exempted from taxation and municipalities were prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities were being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities were being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget enacted by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program was reduced by $18.1 million, approximately 13.4 percent of the enacted FY 2010 budget amount. The statute was amended to require reimbursement to communities equal to 88 percent of the 98 percent current rate of reimbursement. For FY 2011, the Governor proposed, in his recommended FY 2011 budget, to eliminate all state appropriations to reimburse local governments for the $6,000 exemption, and included permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above. For FY 2011 and thereafter, the General Assembly enacted legislation that mandates a $500 exemption for which the state will reimburse municipalities an amount subject to appropriation. The legislation further allows municipalities to provide an additional exemption; however, that additional exemption will not be subject to reimbursement. The Assembly also removed the provision that restricted municipalities from taxing the difference in the event that the value of a vehicle is higher than the prior fiscal year. It also allowed for rates to be lowered from the current frozen levels.

The Assembly provided $10.0 million for FY 2011 and in FY 2012. The Assembly did not provide funding for fire districts beyond FY 2010 but for FY 2011 and thereafter, it restored the authority for fire districts to levy a motor vehicle excise tax.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. 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. For FY 2010, the State appropriated $592.1 million in education aid, which includes a 2.8% across-the-board reduction from the original FY 2010 Enacted Budget and $55.7 million in State Fiscal Stabilization Funds under the American Recovery and Reinvestment Act of 2009 ("ARRA") that was offset by an equal reduction in state funding. For FY 2011, the state appropriated $616.1 million in education aid, which includes a 3.8% across-the-board reduction from the original FY 2010 Enacted Budget and $18.6 million in State Fiscal Stabilization Funds that are offset by an equal reduction in state funding.

In June 2010, the General Assembly enacted a funding formula to guide education aid payments beginning July 1, 2011 (FY 2012). The formula will redistribute current education aid spending among school districts, state-operated schools, and charter schools. For school districts that will receive more money under the new formula, the increase will be phased in over seven years in equal amounts. For school districts that will receive less money under the new formula, the decrease will be phased in over ten years in equal amounts.

In addition to redistributing current aid levels, the formula establishes several categories of funding that it pledges to pay for. However, these categories are subject to appropriations and may be ratably reduced if demand exceeds the available funding. Under these new categories, the state will pay for the costs of setting up and running career and technical education programs, the costs of pre-kindergarten programs, transportation for out of district non-public students and students in regionalized school districts, and the amount of the cost of any special education student that is above five times the core education aid amount (meaning the cost for a non-special education student who is eligible for the free and reduced lunch program). Existing permanent bonuses for regionalized school districts will be replaced with temporary bonuses that phase out over two years and the City of Central Falls will have to assume 50 percent of its required local contribution after a transition period of ten years (currently the State pays 100 percent of the local contribution for Central Falls).

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 and renovations. The recently enacted funding formula also raises the minimum reimbursement percentage to 35 percent for the FY 2012 payments and 40 percent for the FY 2013 payments and thereafter. 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. This program has grown from $18.7 million in FY 1997 to $70.8 million in the FY 2011 enacted budget. A related program will provide approximately $2.5 million in FY 2011 to cities and towns to provide aid in the construction of libraries.

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

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit higher educational institutions, non-profit or State-owned hospitals, veterans' residential facilities, and correctional facilities. The FY 2011 Enacted Budget includes $27.6 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2011 Enacted Budget to fund allocations for eight communities. Of these communities, Central Falls was determined to be especially distressed in FY 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. State library aid provides financial support for local public library services and for the construction and capital improvement of any free public library. A portion of library aid is disbursed directly to local libraries, including private libraries, while other aid is disbursed to the individual cities and towns.

Rhode Island also distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at $11.4 million for the FY 2011 revised budget. Also, the State distributes a 1% (one percent) meals and beverage tax, estimated at $19.0 million for FY 2011 according to the proportion of that tax collected in each community. The State also provides funds through the Airport Impact Aid to cities and towns which host airports, and expects to distribute a total of $1.025 million in FY 2012.

Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax, as described above. No funding was provided for this program in either the FY 2010 or FY 2011 enacted budgets.

The FY 2012 Budget as enacted by the General Assembly includes municipal aid to cities and towns via state appropriations and pass through taxes including the following: PILOT will receive $33.1 million. Distressed Community Relief Fund totals $10.4 million, which is level funded as compared to the FY 2011 enacted budget. State Library Aid will receive $7.7 million. An additional amount of $2.8 million is for library construction reimbursement and $1.0 million for a statewide reference library resource grant. Motor Vehicle Excise Tax Reimbursement is level funded at $10.0 million. Currently, as a result of the indices established by Rhode Island General Laws 45-13-12, the following communities receive funds through the Distressed Communities Relief Fund: Burrillville, Central Falls, East Providence, North Providence, Pawtucket, Providence, West Warwick and Woonsocket (Based on current data, Burrillville and East Providence will no longer qualify going forward).

State Budgeting Practices for Municipalities

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

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

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

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

The Governor's proposal also included a requirement that communities fully fund the ARC over 5 years starting in 2012, and OPEB ARC over ten years starting in FY 2014. These proposals were not adopted by the General Assembly.

Principal Governmental Services

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

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including, but not limited to, the Department of Administration, the Department of Revenue, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including, but not limited to, the Department of Business Regulation and the Public Utilities Commission. The three major departments in the General Government function are the Department of Administration, the Department of Revenue, and the Department of Labor and Training.

Department of Administration. The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, and labor relations. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to 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. In 2006, the Division of Lotteries was transferred to the new Department of Revenue.

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

Department of Revenue. During the 2006 session of the General Assembly, the Department of Revenue was created. The new department incorporates several divisions and units previously assigned to the Department of

Administration, including the Division of Taxation, the Registry of Motor Vehicles, Division of State Lottery, and the Office of Municipal Finance. New offices of the Director and Revenue Analysis were also created.

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 care of the disabled by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services; and financial assistance, health care and social services provided by the Department of Human Services. The FY 2007 budget created the Office of Health and Human Services, a separate agency that 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 Behavioral Healthcare, Developmental Disabilities 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, child support enforcement, supplemental security income, general public assistance, food stamps, family independence program, cash assistance, child care and training, elderly nutrition and other services to the elderly. The Department also operates the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

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

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

Education

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

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

Board of Governors for Higher Education. The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for public higher education in the State, including a comprehensive capital development program. Board members are appointed by the Governor. In addition, the Board holds title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (collectively, the "State Colleges"). While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education. The Board has had the Rhode Island Health and Educational Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2010 totals $281,668,374.

Public Safety

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

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

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

The Department of Corrections is made up of two main programmatic areas, Institutional Corrections and Community Corrections. The Adult Correctional Institutions (ACI) includes 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 and the Coastal Resources Management Council. Staffing responsibilities for the Water Resources Board were transferred to the Department of Administration as part of the FY 2012 Enacted Budget.

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

Transportation

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

The Intermodal Surface Transportation Fund is supported by the State's 32 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in the FY 2010 Enacted Budget. In addition, the State charges $0.01 per gallon of motor fuel delivered to an underground storage tank (UST). In 2009, 0.5 cents of the UST fee was dedicated to the Rhode Island Public Transit Authority (RIPTA); prior to 2009, the full 1.0 cent went to the Department of Environmental Management. Motor fuel tax receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of RIPTA and the Department of Human Services. As of FY 2010, the 32 cents per gallon motor fuel tax and the 1.0 cent UST fee are allocated as follows: 19.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 9.75 cents to RIPTA, of which 9.25 cents are from motor fuel tax and 0.5 cent is from the UST fee; 1.0 cent to the Department of Human Services for its Elderly and Disabled Transportation Program, and the remaining 0.5 cent from the UST fee to the Department of Environmental Management's Underground Storage Tank Replacement Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Economic Development Corporation, at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. The State completed the GARVEE financings in three series over a period of six years. The first series, in the amount of $216,805,000, was issued on November 25, 2003. The second series, in the amount of $184,620,000, was issued on March 2, 2006. The third series in the amount of $169,395,000 was issued on April 2, 2009. In July 2011 the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also creates the I-195 redevelopment district commission. The seven member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42M to finance the acquisition by the Redevelopment Commission of the surplus land. This in combination with residual funds from the motor fuel proceeds, are expected to be sufficient to fund these projects. To the extent these resources are not sufficient to complete the projects, other Transportation funds would be made available, which would impact the progress of other contemplated projects.

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

The Blue Ribbon Panel for Transportation Funding released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair but that state and federal funding only currently provides approximately $354 million per year. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through ARRA, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

State Fund Structure – Accounting Basis

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

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

Budget Procedures

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

According to Article IX Section 15 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the General Assembly on or before the third Thursday in January, unless extended by statute. The budget contains a complete plan of estimated revenues and proposed expenditures with a personnel supplement detailing number and titles of positions of each agency and estimates of personnel costs for the next fiscal year.

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

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

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

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 Plan Fund. The Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Reserve Account to the General Fund. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation, the General Fund ended FY 2009 with a deficit of $62.3 million. The FY 2010 enacted budget included $22.0 million of appropriations to repay the Rhode Island Capital Plan Fund. However, the enacted Supplemental FY 2010 budget delayed that repayment to the Rhode Island Capital Plan Fund to FY 2011. The Governor's FY 2011 Supplemental Budget requested that this repayment be delayed again to FY 2013, but subsequent to the May Revenue Estimating Conference, the Governor requested that some of the additional revenues estimated to be available in FY 2011 be used to make this payment as originally enacted. The General Assembly approved this request as part of the final enacted FY 2011 Supplemental Budget. The actual balance of the Budget Reserve Account at the end of FY 2010 was $112.3 million.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Plan Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the Budget Reserve Account by limiting annual appropriations to ninety-seven (97.0%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5.0%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the Budget Reserve Account maximum balance would be gradually increased by 0.4 percent annually to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2011, spending is limited to 97.4 percent of revenues and the Budget Reserve Account is capped at 4.2 percent of resources. In FY 2012, spending will be limited to 97.2 percent of revenue and the Budget Reserve Account is capped at 4.6%.

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

Financial Controls

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

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

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

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

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

The Finance Committee of the House of Representatives is required by law to provide for a complete post-audit of the financial transactions and accounts of the State on an annual basis, which must be performed by the Auditor General, who is appointed by the Joint Committee on Legislative Affairs of the General Assembly. This post-audit is performed traditionally on the basis of financial statements prepared by the State Controller in accordance with the requirements of the Governmental Accounting Standards Board with specific attention to the violation of laws within the scope of the audit, illegal or improper expenditures or accounting procedures and recommendations for accounting and fiscal controls. The Auditor General also performs an audit of the State's compliance with federal program requirements. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

Recent Events

2010 Flood: On March 30, 2010, the State experienced severe flooding in certain parts of the State resulting in a federal declaration of emergency for the entire state. This declaration made the State eligible for certain federal reimbursement from the Federal Emergency Management Agency (FEMA) and the Federal Highway Administration (FHWA) for damage to transportation infrastructure. As of May 25, 2011, the RI Emergency Management Agency has collected data on damage and costs incurred by various municipalities and State agencies totaling approximately $9.9 million, not including transportation infrastructure related expenses. The State anticipates the federal government will reimburse up to 90 percent of these costs.

Federal Debt Limit: The US Congress must vote to raise the national debt limit or risk a default on United States debt, possibly as soon as early August 2011. The Congress, as of July 13, 2011 has not been able to reach agreement on the terms under which both Republicans and Democrats would agree to raise the debt limit. If the national debt limit is not raised in a timely fashion, it is possible that federal aid and other federal payments to the State, as well as to other states and municipalities, could cease or be delayed. The budget and financial health of the State would likely be adversely affected by any such disruption in the flow of anticipated federal dollars to the State. Although the congressional parties and the President are working to reach an agreement to raise the debt limit, at this point it is not known if the debt limit will be raised in time to avoid any such disruption.

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 2009 and FY 2010 reflect audited revenues. For a discussion of revenues for FY 2011 and FY 2012, see "Revenue Estimates – Final Adopted FY 2011 General Revenues", "Revenue Estimates – Final Enacted FY 2011 Revenue Changes", "Revenue Estimates – Revised FY 2012 General Revenues", and "Revenue Estimates – FY 2012 Enacted Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2010, 64.1 percent of all taxes and departmental receipt revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 56.4 percent of all general revenues.

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

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

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

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

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

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

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

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

In the 2005 Session, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 5.0 percent to 10.0 percent. In addition, the General Assembly repealed the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond. In FY 2006, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 10.0 percent to 15.0 percent. The General Assembly also increased the amount of Rhode Island Property Tax Relief from $250 to $300 for tax year 2006.

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

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

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

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

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

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

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

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

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

In the 2011 Session, the Governor proposed and the General Assembly passed legislation which created two top 100 delinquent taxpayers lists, one list for the top 100 delinquent individual taxpayers and another list for the top 100 delinquent business taxpayers. Prior to July 1, 2011 only one list was published online for both categories of delinquent taxpayers. A revenue increase of $779,965 is anticipated for FY 2012 as a result of this change. Additionally, the General Assembly accepted the Governor's proposal to offset lottery winnings in excess of $600 against taxes owed to the Tax Administrator. As a result, a revenue increase of $141,457 is anticipated for FY 2012. Finally, the General Assembly passed and the Governor signed into law the addition of four Revenue Agent I positions for the sole purpose of auditing and compliance activities associated with the Division of Taxation's Data Warehouse program. It is anticipated that the four additional agents will generate $2.0 million in additional personal income tax revenue in FY 2012.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled $898.1 million or 29.8 percent, of the State's FY 2010 audited total general revenues. FY 2010 personal income tax collections declined by $42.4 million from FY 2009 and also decreased in the share of total general revenues from FY 2009 levels.

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

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

General Fund has received all of the State sales and use tax revenues collected from the imposition of the 7.0 percent sales and use tax.

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

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

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

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

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

In the 2010 session, the General Assembly passed legislation that legalized the sale and possession of "ground and hand-held sparkling devices", including cylindrical and cone fountains, illuminating torches, wheel and ground spinners, flitter sparklers, toy smoke devices, and wire sparklers/dipped sticks. The legalization of these types of pyrotechnic products was effective June 11, 2010 and expanded the state's taxable retail sales base. No incremental revenue gain was estimated for FY 2011. In addition, the General Assembly declared Landmark Medical Center (LMC) to be a "distressed essential community hospital" and exempted it, or "any entity owned or controlled by LMC" or any successor-in-interest to LMC "regardless of whether any such successor operates for profit or is subject to federal or state taxation" from the sales and use tax that might be due in connection with any purchases, capital improvements, or any other activities conducted…pursuant to the health facility licenses maintained by LMC (or its succesors-in interest)." This legislation has no impact on the State's sales and use tax collections as Landmark Medical Center is currently exempt from the State's sales and use tax as a nonprofit hospital under Rhode Island General Law § 44-18-30(5). Finally, in the 2010 Session, the General Assembly exempted diesel emission control technology that is required by Rhode Island General Law § 31-47.3-4 from the State's sales and use tax.

In the 2011 Session, the General Assembly passed and the Governor signed into law an expansion of the sales tax base. Four items which were previously exempt from the sales and use tax were made subject to the sales and use tax effective October 1, 2011. These four items are: (1) package tour and scenic and sightseeing transportation services; (2) prewritten computer software delivered electronically or by load and leave; (3) patent medicines available without a prescription, including medical marijuana; and (4) insurance proceeds received from the total loss of a passenger automobile that were previously allowed as a trade-in allowance when purchasing a replacement passenger automobile. A revenue increase of $17.1 million is anticipated for FY 2012 as a result of these changes. It should be noted that these changes will have a full fiscal year impact in FY 2013. Additionally, the 2011 Session enacted legislation to reduce the sales and use tax from 7.0 percent to 6.5 percent upon the passage of any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents, effective the first day of the first state fiscal quarter following passage. Further, upon any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents the rate for the local meal and beverage tax and the local hotel tax shall be increased from 1.0 percent to 1.5 percent, effective the first day of the first state fiscal quarter following passage. It should be noted that no such legislation has passed at the federal level. No incremental revenue impact was estimated for FY 2012 from these enacted provisions.

In the 2011 Session the General Assembly also enacted legislation and the Governor signed into law the elimination of two sales and use tax exemptions, one administered by the Rhode Island Economic Development Corporation (RIEDC) and one administered by the Rhode Island Industrial Facilities Corporation (RIIFC) effective July 1, 2011. Prior to July 1, 2011 RIEDC and RIIFC were authorized to grant a sales and/or use tax exemption to eligible companies for the materials used in the construction and/or rehabilitation of a building and the equipment purchased to outfit the building for use. Eligible companies with currently active sales and use tax exemption agreements or eligible companies with projects approved prior to July 1, 2011 will receive the sales and use tax exemption through the end of the respective project agreements. As a result, a revenue increase of $100,000 is anticipated for FY 2012.

Finally, during the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. Establishment of this list is anticipated to increase sales and use tax revenue by $602,399 for FY 2012.

The sales and use tax totaled $803.4 million, or 26.6 percent, of the State's FY 2010 total audited general revenues. FY 2010 final audited sales and use tax collections decreased in dollar terms and in the share of total general revenues from FY 2009.

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

In 1996, the General Assembly enacted the Jobs Development Act (JDA). As subsequently amended, it provided for rate reductions of one-quarter of one percent (up to a maximum reduction of six percent) for each 50 new jobs created by eligible firms (each 10 new jobs created by a small business concern) for three years past the elected base year. A qualifying job is a 30-hour per week, on average, position that pays at least 150 percent of the prevailing hourly minimum wage as determined by State law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the business corporations tax liability of a taxpayer.

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

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

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

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

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

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

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

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

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

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

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

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

In the 2011 Session, the General Assembly proposed and the Governor signed into law the repeal of the exemption of limited partnerships and limited liability partnerships from the corporate minimum tax. Rhode Island's corporate minimum tax is $500. A revenue increase of $794,250 is anticipated for FY 2012 as a result of this change. Additionally, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. It is anticipated that revenue will increase by $130,415 for FY 2012 as a result of this change. Finally, the General Assembly proposed and the Governor signed into law a provision requiring corporations that are part of a "unitary business" to cooperate with the Division of Taxation in a two-year study of the impact that the implementation of combined reporting would have on state revenues as well as the tax liabilities of business corporation taxpayers.

The business corporation tax totaled $146.8 million, or 4.9 percent, of the State's FY 2010 final total general revenues. FY 2010 audited business corporations tax collections increased in both dollar terms and in the share of total general revenues from FY 2009.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the developmentally disabled. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents. From January 1, 2008 through September 30, 2011, the health care provider assessment on residential facilities for the developmentally disabled will be reset to 5.5 percent of gross revenues due to a rule-making by the Center for Medicare and Medicaid Services (CMS), the federal agency responsible for administering Medicare, Medicaid, SCHIP, HIPAA, and several other health related programs.

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.5 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the General Assembly reduced the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowered payments received from the 5.5 percent provider tax. The Assembly enacted a decrease of total payments to nursing homes of $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, a series of expenditure reductions to nursing homes lowered State tax revenues. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes.

In the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. It is anticipated that revenue will increase by $275,888 for FY 2012 as a result of this legislation. The General Assembly proposed and the Governor signed into law the elimination of the "cost-of-living-adjustment" (COLA) that nursing home providers would have received effective July 1, 2011. The COLA would have been in addition to increased payments to nursing home providers of $6.5 million in FY 2012. The increased revenues to nursing home providers resulting from the COLA would have been subject to the 5.5 percent health care provider assessment. As a result of the repeal of the COLA, a revenue decrease of $348,759 is projected for FY 2012.

The health care provider assessment accounted for approximately $40.3 million, or 1.3 percent of the State's FY 2010 final total general revenues. The dollar amount decreased for the health care provider assessment between FY 2010 and FY 2009. The health care provider assessment also decreased in the share of total general revenues between the two fiscal years.

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the tax liability of public service corporations.

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

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

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

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

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

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

The public service corporation gross earnings tax accounted for approximately $95.8 million, or 3.2 percent, of the State's FY 2010 audited total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2010 and FY 2009.

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

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

In 1997, the General Assembly increased the investment tax credit for insurance companies from 2.0 to 4.0 percent of buildings and structural components purchased in Rhode Island and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is defined as pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the gross premiums tax of insurance companies.

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

In the 2005 Session, the General Assembly enacted legislation eliminating the exemption from the insurance companies gross premiums tax for the insurer that maintains the State's workers compensation insurance fund effective July 1, 2005.

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

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

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

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

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

In the 2010 Session, the General Assembly enacted legislation to repeal the exemption from the insurance companies gross premiums tax that was granted to any joint underwriting association that issued contracts for medical malpractice insurance effective January 1, 2011. In addition, the 2010 General Assembly increased the rate of tax from 3.0 percent to 4.0 percent for contracts of insurance written by surplus line brokers effective January 1, 2011. A revenue increase of $1.3 million is anticipated for FY 2011 as a result of these changes.

The insurance companies' gross premiums tax accounted for approximately $95.8 million, or 3.2 percent, of the State's FY 2010 final total general revenues. Both the dollar amount and the share of total general revenues increased between FY 2010 and FY 2009.

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

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

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

In 1997, the General Assembly increased the investment tax credit for financial institutions from 2.0 to 4.0 percent of purchased buildings and structural components and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is defined as pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

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

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

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

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

The financial institutions tax accounted for approximately $2.3 million, or 0.1 percent of the State's FY 2010 audited total general revenues. Both the dollar amount of collections and the share of total general revenues decreased for the financial institutions excise tax between FY 2010 and FY 2009.

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 $1.9 million, or 0.1 percent, of the State's FY 2010 audited total general revenues. The dollar amount of bank deposits taxes increased slightly as did its share of total general revenues from FY 2010 versus FY 2009.

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

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

The estate tax accounted for approximately $29.1 million, or 1.0 percent, of the State's FY 2010 audited total general revenues. The dollar amount of estate taxes and the share of total general revenues increased in FY 2010 from FY 2009.

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

The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past several years, although not as frequently as the cigarette stamp tax. On July 1, 2001, the other tobacco products tax was increased from 20.0 percent of the wholesale price of other tobacco products to 30.0 percent. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products. On July 1, 2006, the tax on cigars was limited to a maximum of 50 cents per cigar and the tax on snuff was changed to $1.00 per ounce with a minimum tax of $1.20.

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

The cigarette tax accounted for approximately $138.3 million, or 4.6 percent, of the State's FY 2010 audited total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2010 and FY 2009.

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

The State has pursued a long-term plan to dedicate all of the motor fuel tax receipts to transportation-related projects and operations. Prior to the convening of the 2002 General Assembly, all motor fuel tax proceeds were to be allocated for transportation purposes in FY 2003. The 2002 General Assembly, in Article 29 of the FY 2003 Appropriations Act, however, delayed the transfer of the final 0.25 cents from the General Fund to the Department of Transportation until FY 2004. In addition, the General Assembly increased the State's motor fuel tax from $0.28 a gallon to $0.30 a gallon effective July 1, 2002. The 2.0 cents per gallon increase in the gas tax was to remain with the General Fund for all future tax years.

The allocation of motor fuel revenues was changed again by action of the 2003 General Assembly (see Transportation) such that for FY 2004 1.4 cents of motor fuel revenues will be available for the General Fund. In 2004, the 2.0 cents of the per gallon motor fuel tax was again dedicated to the General Fund effective March 1, 2004. Finally, in the 2005 Session, the General Assembly transferred 1.0 cent of the motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

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

The transfer of the motor fuel tax to the General Fund was $24,134 and accounted for less than 0.01 percent of the State's FY 2010 audited total general revenues. The dollar amount of the motor fuel tax transfer and its share of total general revenues decreased between FY 2010 and FY 2009.

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

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

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

In the 2005 Session, the General Assembly enacted legislation to increase a number of motor vehicle registration and operator license fees effective July 1, 2005.

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

In 2010 the General Assembly passed legislation to increase the fee charged for the issuance of a State Identification Card and for the registration of a school bus. For both the new fee is $25.00, under prior law, the fee for the issuance of a State Identification Card was $15.00, while the fee for the registration of a school bus was $3.00. These fee increases are estimated to enhance revenues by $167,400 in FY 2011.

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

In addition, the 2010 General Assembly enacted legislation dropping the requirement that Twin River conduct 125 days of live greyhound racing per year in order to retain the license to house the 4,752 video lottery terminals that Twin River is authorized to manage. This action reduces racing and athletics taxes by $300,000 in FY 2011.

Other taxes accounted for approximately $69.0 million, or 2.3 percent, of the State's FY 2010 audited total general revenues. FY 2010 other tax collections decreased slightly in dollar terms and the percentage share of total general revenues from FY 2009.

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 fee revenues are derived from the registration of securities, motor vehicle title fees and various professional licenses.

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

The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospitals' 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospitals' 1995 base year.

The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospitals' 2000 base year. For FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. In the 2004 Session, the FY 2005 rate was set at 3.14 percent of net patient service revenues generated in the 2003 base year.

In the 2005 Session, the Governor proposed increasing the hospital licensing fee to 3.45 percent of 2003 net patient revenues. The General Assembly increased this rate further to 3.56 percent of net patient service revenues and advanced the base year to 2004.

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

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

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

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

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

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

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

In the 2010 Session, the General Assembly increased the rate of the hospital licensing fee from 5.237 percent to 5.314 percent applied to each hospital's fiscal year 2008 net patient revenue. (It should be noted that the FY 2010 hospital licensing fee was paid in July 2010 and accrued back to FY 2010.) For FY 2011, the General Assembly passed legislation to reinstitute the hospital licensing fee but at a rate of 5.465 percent applied to each hospital's fiscal year 2009 net patient revenues. The total impact of the change in the rate and the base is to increase the amount collected from the hospital licensing fee to $141.8 million in FY 2011. The payment of the FY 2011 hospital licensing fee will occur in July 2011.

In addition, the 2010 General Assembly enacted legislation to increase a variety of fees administered by the Division of Motor Vehicles and the Department of Public Safety to generate $846,410 of estimated additional licenses and fees departmental revenue in FY 2011.

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

In the 2011 Session, the General Assembly passed legislation to reinstitute the hospital licensing fee but at a rate of 5.430 percent applied to each hospital's fiscal year 2010 net patient revenues. The total impact of the change in the rate and the base is to increase the amount collected from the hospital licensing fee to $144.0 million in FY 2012. The payment of the FY 2012 hospital licensing fee will occur in July 2012.

Additionally, the Governor proposed and the General Assembly passed legislation in the 2011 Session to increase two fees administered by the Department of Business Regulation. The license fee for securities sales representatives increased by $15.00 from $60.00 to $75.00 and the fees assessed on federal covered advisors increased by $50.00 from $250.00 to $300.00. It is estimated that these license fee increases will generate revenues of $1.2 million in FY 2012.

Further, the General Assembly adopted the Governor's proposal in 2011 to increase both the estate tax filing fee and the letter of good standing fee from $25.00 to $50.00. As a result, a revenue increase of $231,840 is anticipated for FY 2012. In addition, the General Assembly concurred with the Governor's proposal to apply a $25.00 surcharge to non-sufficient fund checks written to the Division of Motor Vehicles. This new fee is expected to generate revenues of $18,720 in FY 2012. Also during the 2011 Session of the General Assembly, the Department of Environmental Management increased parking fees at State beaches. The increased state beach parking fees are projected to increase general revenues by $1.5 million in FY 2012.

The 2011 Session also saw the General Assembly concur with the Governor's proposal to institute a $10.00 surcharge for conducting application clearances for (1) individuals seeking employment in licensed residential and child day care programs, (2) child caregivers, (3) individuals applying to adopt children, and (4) for intra-state requests for child welfare history. It is anticipated that the $10.00 surcharge will increase revenue by $110,000 in FY 2012.

Finally, the General Assembly adopted in the 2011 Session the Governor's proposal to apply a 4.0% surcharge on the three compassion centers that are authorized to provide medical marijuana within Rhode Island. It is anticipated that the surcharge will generate $693,693 in FY 2012.

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

The 2010 General Assembly passed legislation to reclassify non-Medicaid hospital payments received by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (formerly the Department of Mental Health, Retardation, and Hospitals) as restricted receipts for FY 2010. This proposal reduces sales and services departmental receipts by $3.2 million in FY 2011.

The 2011 General Assembly accepted the Governor's proposal to allow the Division of Taxation to act as a collection agency on the behalf of other state and municipal agencies. A revenue increase of $153,576 is anticipated in FY 2012 as a result of this legislation change.

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.

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

The 2010 General Assembly enacted legislation to reclassify the payments received from local education authorities for the state administered student transportation initiative from miscellaneous departmental receipts to a restricted receipt account for FY 2010 and FY 2011. This action reduces general revenues in FY 2011 by $15.6 million. The 2010 General Assembly passed legislation to subject the telecommunication education access fund to the indirect cost recovery charge. The combination of these decisions is to increase miscellaneous revenues category of departmental receipts by $85,240 in FY 2011. Finally, the General Assembly accepted monies from a non-government entity to continue women's cancer screenings until June 30, 2010.

In the 2011 Session, the General Assembly proposed and the Governor approved for FY 2011 a grant of $16,107 by the Hospital Association of Rhode Island for the Department of Health's cancer registries research. In addition, the 2011 General Assembly enacted legislation to classify the Urban Institute's "Work Support Strategies" grant to the Department of Human Services as general revenue. This grant is designed to help improve the provision of services to low-income working families. As a result of this grant, revenues will increase by $250,000 in FY 2012.

Departmental Receipts were approximately $333.1 million, or 11.0 percent, of the State's audited total general revenue in FY 2010. FY 2010 departmental receipts increased on a nominal basis and as a share of total general revenues when compared to FY 2009.

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

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of the Division of State Lottery to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Twin River (the former Lincoln Park) and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River freezes the retailers share of NTI from existing terminals at 28.85 percent and from additional video lottery terminals at 26.0 percent (which rates are subject to certain adjustments based on the Consumer Price Index in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26.0 percent.

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

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

million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders would become the new owners of the facility and search for a new operator for the facility to replace the Debtors. Progress has been made toward a successful restructuring of the companies. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual.

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

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

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

While the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River, it should be noted that on June 11, 2010 the legislature passed an Act which would authorize state-operated casino gaming at the facility; provided however, such authorization would only be effective if the qualified voters of the State approve the expansion of gambling at the facility to include casino gaming as defined under the Act and the qualified electors of the Town of Lincoln approve the expansion of gambling at the facility to include said casino gaming. On or about June 22, 2010, the governor vetoed the Act. The legislature did not attempt to override that veto. During the 2011 legislative session, the Rhode Island General Assembly passed an act, Article 25 of the 2012 Appropriations Act which authorizes state-operated gaming at the Twin River facility; provided however, such authorization would only be effective if the qualified voters of the State approve the expansion of gambling at the facility to include casino gaming defined in Article 25 as "…..any and all table and casino-style games played with cards, dice or equipment, for money, credit, or any representative of value……" and the qualified electors of the Town of Lincoln approve the expansion of gambling at the facility to include casino gaming. The Act was signed by the Governor and became law on June 30, 2011. There will be a general election in November 2012.

During the 2009 Session, it was determined that the Division of State Lottery could administratively set the hours of operation for Twin River and Newport Grand. To date, the Division of State Lottery has implemented 24 hours a day, three days a week hours of operation for both Twin River and Newport Grand. Under current law, the State's share of the revenue from 24/3 is recorded as general revenues. In November 2009, the Division of State

Lottery promulgated rules and regulations to allow both Twin River and Newport Grand to operate VLTs on a 24 hours a day, seven days a week basis (24/7) at their discretion.

The 2010 General Assembly enacted legislation that amended the master video lottery terminal contracts for Twin River and Newport Grand. The amendments reduce the employment levels that each facility must have in order to extend the term of the contract, provide for promotional points programs, institutes a marketing program for each facility to be operated jointly with the Division of State Lottery, decreases the State percentage of the net terminal income generated at Newport Grand, and increases the Town of Lincoln's share of the net terminal income generated at Twin River for weeks when Twin River is open 24 hours. Twin River has been operating on a 24 hours a day, seven days a week basis since November 2009. The enhanced payment to the Town of Lincoln expires on June 30, 2011. The combined impact of these amendments is to reduce the lottery transfer to the state general fund by $5.5 million in FY 2011.

The 2011 General Assembly enacted legislation to restore the funds Newport Grand would have received in FY 2011 and FY 2012 had the facility met the benchmarks set forth in the First Amendment to the Newport Grand Master Video Lottery Contract with regard to the joint marketing program contained therein. The Newport Grand joint marketing program requires the State to share in the cost of marketing Newport Grand's gaming offerings for approved marketing expenses in excess of $560,000. The state pays out of its share of Newport Grand's video lottery terminal net terminal income (NTI) 61.69 percent of the marketing expenses in excess of the $560,000 threshold. As a result, a revenue decrease of $163,000 is anticipated in FY 2011 and a decrease of $272,000 is expected for FY 2012.

In addition, the 2011 General Assembly enacted legislation to enhance the Town of Lincoln's share of Twin River's net terminal income for those weeks in which Twin River operates on a 24 hour basis. Any enhancement in the share of net terminal income going to the Town of Lincoln reduces the State's share of Twin River's NTI on a dollar-for-dollar basis. As a result, a revenue decrease of $868,490 is anticipated for FY 2012. Finally, the 2011 General Assembly realized additional savings within the Division of Lottery's operations resulting in an increase of available revenue to be transferred to the State. It is estimated that these savings will increase the lottery transfer to the state by $982,593 in FY 2012.

The lottery transfer to the General Fund totaled $344.7 million which accounted for 11.4 percent of the State's audited total general revenues in FY 2010. The dollar amount of the lottery transfer to the General Fund and its share of total general revenues increased between FY 2010 and FY 2009.

The next largest component of Other Sources is the Other Miscellaneous category. This category reflects among other things, non-recurring receipts that are not recorded in other receipt categories, such as one-time receipts from securitization of tobacco master settlement.

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

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

In the 2010 Session, the General Assembly passed legislation to transfer excess reserves from the State's automobile replacement fund. In addition, the General Assembly also transferred additional excess reserves from the Rhode Island Health and Educational Building Corporation (RIHEBC). For FY 2011 the General Assembly also transferred $1.0 million of excess reserves from RIHEBC.

In the 2011 Session, the General Assembly concurred with the Governor's proposal to transfer excess reserves from the Rhode Island Resource Recovery Corporation to the state's general fund. This transfer increases other miscellaneous revenues by $3.5 million in FY 2012. Additionally, the General Assembly passed and the Governor signed into law the designation of revenue from land sales received in FY 2012 to the information technology revolving fund, a restricted receipt account. As a result, general revenues will decrease by $1.0 million in FY 2012.

The total amount of Other Miscellaneous monies received in FY 2010 was approximately $12.5 million, which accounted for 0.4 percent of the State's audited total general revenues. For FY 2009, these amounts were $17.8 million and 0.6 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 $24,134 in FY 2010.

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

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

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

Unclaimed property transfers totaled $5.9 million in FY 2010 and accounted for 0.2 percent of the State's total general revenues for FY 2010. The dollar amount of the unclaimed property transfer decreased as did its share of total general revenues between FY 2010 and FY 2009.

Restricted Receipts. In FY 2010, the State expended $152.3 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 2010, the State expended $2.813 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), and a block grant for Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX, known as the Federal Medical Assistance Percentage (FMAP), is recalculated annually. The major determinant in the FMAP rate calculation is the relative per capita income of the State. Effective October 1, 2010 to September 30, 2011, the unenhanced rate is 52.97 percent, which will decrease to 52.12 in the subsequent federal fiscal year (FFY 2012). The rate for FFY 2010 was 52.63 percent. The provisions of ARRA included a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.92 from October 1, 2009 through September 30, 2010. The ARRA-enhanced FMAP for the second quarter of FY 2011 was 64.22. The FMAP enhancement provisions of ARRA were partially continued by Public Law 111-226, the Education Jobs and Medicaid Assistance Act, which resulted in enhanced FMAPs of 61.39 and 59.51 for the third and fourth quarters of FY 2011, respectively.

ECONOMIC FORECAST

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

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

On May 6, 2011, the Conferees heard updated economic forecasts for the nation and the State, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. According to Moody's Economy.com, the improvement in the U.S. labor market has begun to accelerate. Job gains are averaging 200,000 per month across both industries and regions while state and local governments are cutting jobs. The only industry lagging in the recovery is the construction sector. Private sector job gains and public sector cuts suggest that the economy has moved away from an economy dependent upon the American Recovery and Reinvestment Act (ARRA) stimulus funds to a stronger private sector The May 2011 Revenue Estimating Conference's principals adopted through a consensus process an economic forecast for the period 2011 through 2016. The forecast is shown below.

As reported at the May 2011 Revenue Estimating Conference, Rhode Island's labor market has reached a cyclical bottom and initial unemployment levels have begun to decrease. The Rhode Island DLT reported that the original unemployment rate estimates for 2009 and 2010 had been revised downward and the state's unemployment had never actually broke 12.0 percent as originally reported in September 2009. In March 2011, the unemployment rate was 11.0 percent, the fourth highest in the nation, lagging the U.S. unemployment rate of 8.8 percent. There was a year-over-year decrease of 4,800 unemployed Rhode Islanders in March 2011. In addition, Rhode Island non-farm employment for 2010 was revised upward by 8,500 jobs. The sector breakdown of these job gains were as follows: Leisure and Hospitality, 3,400; Trade, Transportation and Utilities, 2,800; Professional Business Services, 2,200; Manufacturing, 900; Educational and Health Services, 400; and Information 300. These increases were offset by a contraction in employment year-over-year in March 2011 within the following sectors: Construction, -200; Other Services, -200; Government, -300; and Financial Activities, -600. Although the Rhode Island economy as a whole has begun to experience job gains, the rate of job gains has trailed those of the United States economy as a whole.

In April 2011, Rhode Island's unemployment rate declined to 10.9 percent marking the first time in the past 21 months that the state's unemployment rate has bee below 11.0 percent. At 10.9 percent, Rhode Island's April 2011 unemployment rate was the third highest state unemployment rate in the country. The U.S. unemployment rate for April 2011 was 9.0 percent. In May 2011, Rhode Island's unemployment rate has remained at 10.9 percent while the U.S. unemployment rate rose slightly to 9.1 percent.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. FY 2011 is expected to show a continued expansion in non-farm employment with a 0.4 percent rate of growth. This rate of growth is a reversal from FY 2010, as non-farm employment shrank at a -2.8 percent rate last fiscal year. Non-farm employment growth rates are expected to regain significant ground beginning in FY 2012. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion. It should be noted that the adopted growth rates suggest that Rhode Island will reach it's peak non-farm employment growth one year later than the growth rates adopted at the November 2010 Revenue Estimating Conference.

Rhode Island's unemployment rate was projected at the May 2011 Revenue Estimating Conference to slowly decline from the 11.3 percent rate projected for FY 2011. As recovery takes hold, Rhode Island's unemployment rate is forecasted to decline in FY 2012 to a rate of 11.0 percent and then decline below double digits to 9.8 percent in FY 2013, to 8.1 percent in FY 2014, to 6.5 percent in FY 2015, and to 6.0 percent in FY 2016.

Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the mid 2000s.

The May 2011 Revenue Estimating Conference estimates for personal income growth suggest a upward revision in FY 2011 through FY 2013 from the November 2010 Revenue Estimating Conference estimates. The adopted personal income growth rate is projected to decrease slightly in FY 2012 before approaching more normal growth rates in FY 2013 through FY 2016. Personal income growth rates are estimated to increase to 3.9 percent for FY 2011, but then average 4.5 percent from FY 2012 through FY 2016. Likewise, estimates of dividend, interest and rental income were trending downward in FY 2010 before turning positive in FY 2011 through FY 2016, averaging 5.3 percent annually. Wage and salary income growth is projected to be significantly positive in FY 2011 and FY 2012, at a 3.6 percent and 3.7 percent rate of growth respectively. Wage and salary growth rises substantially again in FY 2013 to 6.3 percent rate of growth, before averaging 4.9 percent from FY 2014 through FY 2016.

The U.S. CPI-U (Consumer Price Index for All Urban Consumers) is expected to increase from the 1.9 percent in FY 2011 to 2.3 percent in FY 2012. The U.S. CPI-U is forecasted to rise to 2.5 percent in FY 2013 and further rising to 2.9 percent in FY 2014. In FY 2015 and FY 2016, inflation is expected to be 2.4 percent on average annually.

From FY 2011 through FY 2012, the interest rate on three-month Treasury bills is expected to remain well below 1.0 percent before rising to 2.0 percent in FY 2013 and average approximately 3.6 percent in FY 2014 through FY 2016. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2011 the interest rate on ten year Treasury notes are expected to be 3.2 percent rising to 5.8 percent in FY 2013 before falling to 4.9 percent in FY 2016.

The consensus economic forecast reflects the beginning of a slow recovery in the global and domestic economies. Employment, income, and other coincidental economic indicators increase slowly over the current fiscal year before accelerating in FY 2012 or FY 2013. The forecast further suggests that self-sustainable economic recovery can be expected beginning in FY 2012. The May 2011 forecast revisions to the November 2010 economic forecast are largely positive, reflecting an earlier onset of recovery for the State. Any increase in current revenue estimates through FY 2013 will nonetheless remain muted. The Consensus Economic Forecast for the fiscal years 2011 through 2016 agreed upon by the conferees at the May 2011 Revenue Estimating Conference is shown in the following table.

The May 2011 Consensus Economic Forecast

Rates of Growth	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Non-farm Employment	0.4	1.3	2.0	2.6	2.7	1.5
Personal Income	3.9	3.7	5.8	5.1	3.7	4.2
Wage and Salary Income	3.6	3.7	6.3	5.7	4.8	4.1
Dividends, Interest and Rent	1.8	4.3	6.5	7.2	6.3	5.7
Nominal Rates						
U.S. CPI-U	1.9	2.3	2.5	2.9	2.4	2.3
Unemployment Rate	11.3	11.0	9.8	8.1	6.5	6.0
Ten Year Treasury Notes	3.2	4.5	5.8	5.4	5.0	4.9
Three Month Treasury Bills	0.2	0.6	2.0	3.5	3.7	3.5

According to the April 2011 report from Moody's Economy.com and testimony at the May 2011 Revenue Estimating Conference, there have been gains in household-based employment, as a result the unemployment rate has been pushed down from its peak in January, indicating that the Rhode Island labor market has pivoted from it's cyclical bottom into recovery. Overall job losses ended in 2010 but there are yet to be any significant gains. Of note, the March 2010 flood cost the state slightly over 3,000 jobs within the retail and leisure/hospitality employment sector. By the end of calendar year 2011 (CY 2011) retail employment is forecasted to grow by 3.8

percent while leisure/hospitality employment is expected to show net gains of more than 4,000 jobs through CY 2014. Overall, job growth in Rhode Island is expected to lag both that of the New England region, and the U.S. as a whole in CY 2011. It would then mirror the U.S as a whole and outpace the rest of the New England region from CY 2012 through CY 2016. The state is projected to return to peak employment levels in late 2014, more than one year after the nation and region.

The Moody's Economy.com forecast further indicates that there are signs of stabilization specifically within the housing sector. The second half of CY 2011 will see slow but steady increases in residential permits this coupled with decreases in foreclosure inventory foreshadows a housing price recovery. Additionally, commercial space vacancy rates appear to have peaked. Construction will regain momentum once the excess supply is removed from the residential and commercial sector. Total residential permits are expected to reach its pre-recession peak by CY 2013.

Furthermore the biotechnology industry may come under competition from New Haven, Connecticut, as it tries to attract new biotech firms through Yale University. If businesses see Connecticut as a more attractive business climate, Rhode Island could lose a prime industry ready for expansion. Finally, the State's economic consultants opined on the issue of full scale casinos opening in Massachusetts or an expansion in Connecticut and what impact this would have on the Rhode Island economy. The general belief was that events such as these would have a serious negative impact on the State.

REVENUE ESTIMATES

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

The Revenue Estimating Conference (REC) met on May 5, 6 and 9, 2011, in open public meetings. The Conference issued a revised estimate for FY 2011 and a second estimate of FY 2012 revenues. Based on collections trends, final audited closing results, and the revised economic forecast, the Conference revised the FY 2011 estimates upward by $53.8 million from the adopted FY 2011 November REC amount, to a total of $3.091 billion for FY 2011. The estimates do include additional revenues from the Governor's proposed FY 2011 Budget. More specifically these revenues incorporate an increase of $2.3 million from the transfer of excess bond proceeds from the State Police headquarters project and an increase of $97,880 from revenue generated by the agreement with the Council of State and Territorial Epidemiologists (CSTE) to develop and participate in an influenza hospitalization surveillance project.

Estimated deposits of $80.8 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2011 as a result of the constitutional funding formula which calculates annual contributions. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.4 percent of estimated revenues in FY 2011 and 97.2 percent of estimated revenues in FY 2012.

Final Adopted FY 2011 General Revenues

The May 2011 Revenue Estimating Conference estimated general revenues of $3.091 billion, an increase of 2.5 percent from the audited FY 2010 level. Relative to the FY 2011 estimates adopted at the November REC, the revised FY 2011 estimate of total general revenues is $53.8 million, or 1.8 percent, more. The revised FY 2011 revenue estimate presumes that the State will regain tax revenues in FY 2011 that previously were lost from several taxes due to the historic structures tax credit which will now be paid from revenue bonds issued in June 2009 by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a further discussion of the revenue bonds issued to fund the Historic Preservation Tax Credit Fund.

The largest source of revised FY 2011 general revenues is the Personal Income Tax, with estimated receipts of $1.004 billion. The final adopted estimate for Personal Income Tax receipts are $67.1 million more than the adopted November REC level or 7.2 percent. Personal Income Taxes are expected to comprise 32.5 percent of total general revenues in FY 2011. Relative to final FY 2010 collections, the final adopted FY 2011 estimate for Personal Income Taxes are $105.5 million more, yielding a growth rate of 11.7 percent. The final adopted FY 2011 estimate for Personal Income Taxes includes the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through June 30, 2011, these redemptions totaled $6.7 million.

Sales and Use Tax collections are estimated to total $810.4 million in the final adopted FY 2011 revenue estimates. The final adopted estimate for Sales and Use Tax collections are $4.9 million more than the estimate adopted at the November 2010 REC for FY 2011. This is a growth rate of 0.6 percent. The FY 2011 final adopted estimate for Sales and Use Taxes signifies positive growth of 0.9 percent over audited FY 2010 collections. Sales and Use Taxes are anticipated to contribute 26.2 percent to total general revenues in FY 2011.

Motor Vehicle Operator License and Vehicle Registration Fees are estimated at $51.5 million in the final adopted FY 2011 revenue estimate. This is a decrease of $300,000 from the FY 2011 estimate adopted November REC, or -0.6 percent. Relative to final FY 2010 collections, the final adopted FY 2011 estimate for Motor Vehicle licenses and fees is 6.7 percent more and is projected to comprise 1.7 percent of all general revenues in FY 2011.

Motor Carrier Fuel Use Taxes are projected at $1.1 million for FY 2011, which is $131,130, more than final FY 2010 collections. Compared to the adopted November 2010 REC estimate for FY 2011 for Motor Carrier Fuel Use taxes, the final adopted FY 2011 estimate is unchanged.

Cigarette Taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, are estimated to total $136.9 million in FY 2011. The final adopted FY 2011 estimate is an increase of $1.9 million from the adopted November 2010 REC estimate for FY 2011, an increase of 1.4 percent. Compared to audited FY 2010 cigarette taxes collections, the final adopted estimate is a decrease of $1.4 million, or -1.0 percent.

Alcohol Taxes are projected at $11.9 million for FY 2011, an increase of 5.6 percent from final FY 2010 collections. Relative to the adopted November 2010 REC estimate for FY 2011, this revision is a decrease of $100,000 or -0.8 percent.

General Business Taxes are projected to comprise 10.1 percent of total general revenue collections in FY 2011. Business Corporations Tax revenues are estimated at $95.1 million, a decrease of $28.2 million from the estimate adopted at the November 2010 REC. This is a decrease of 22.9 percent. It should be noted that the decrease is largely related to refinements to the accrual and recognition of certain tax revenues as recommended to the Revenue Estimating Conference principals by the State Controller in concurrence with the Auditor General. The recommended refinements are consistent with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. Business Corporations Tax collections are estimated to be 35.2 percent lower than final FY 2010 collections. Business Corporations Taxes are expected to constitute 3.1 percent of total general revenues in FY 2011. The final adopted FY 2011 Business Corporations Tax estimate includes the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes. Through June 30, 2011 these redemptions totaled $818,010.

Health Care Provider Assessments final adopted estimate is $40.5 million for FY 2011 or unchanged from the adopted November 2010 REC estimate for FY 2011. These estimates incorporate the fact that the assessment on residential facilities for the developmentally disabled has been discontinued for services provided after June 30, 2009. Compared to FY 2010 audited health care provider assessment collections, the final adopted estimate represents an increase of 0.6 percent.

Insurance Companies Gross Premiums Taxes are estimated at a total of $68.0 million for FY 2011 as adopted at the May 2011 Revenue Estimating Conference and are forecasted to be 29.1 percent lower than final FY 2010 collections. Relative to the FY 2011 estimate adopted at the November 2010 REC, the final adopted FY 2011 estimate is $30.2 million, or 30.8 percent, less. It should be noted that the decrease is largely related to refinements to the accrual and recognition of certain tax revenues as recommended to the Revenue Estimating Conference principals by the State Controller in concurrence with the Auditor General. The recommended refinements are consistent with generally accepted accounting principles as promulgated by the Government Accounting Standards

Board. The final adopted FY 2011 Insurance Companies Gross Premiums Tax includes the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against Insurance Companies Gross Premiums taxes. Through June 30, 2011, these redemptions totaled $6.6 million. Insurance Companies Gross Premiums Taxes are projected to comprise 2.2 percent of total general revenues in FY 2011.

The final adopted FY 2011 Financial Institution Taxes estimate is $1.0 million. Financial Institutions Taxes represent less than 0.1 percent of total final adopted general revenues in FY 2011. The final adopted FY 2011 Financial Institutions taxes estimate is $750,000 more than the adopted November 2010 REC estimate for FY 2011, an increase of 300.0 percent. Relative to audited FY 2010 collections, the revised FY 2011 estimate for Financial Institutions Taxes is 56.9 percent less. The Financial Institutions Tax estimate includes the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through June 30, 2011, there have been no redemptions of historic structures tax credit certificates against Financial Institutions taxes.

FY 2010 Bank Deposits Taxes are projected to total $2.0 million, an increase of $100,000 over the adopted FY 2011 estimate from the November 2010 REC. The FY 2011 level of Bank Deposits Taxes yields a growth rate of 7.5 percent when compared to final audited FY 2010 collections.

The final adopted FY 2010 Public Utilities Gross Earnings Taxes estimate is projected at $104.2 million and comprises 3.4 percent of final adopted total general revenues in FY 2011. Compared to the FY 2011 adopted estimate at the November 2010 REC for Public Utilities Gross Earnings tax, this is an increase of $7.2 million or 7.4 percent. The increase in the Fiscal 2011 estimate is partially related to a reduction in the receivable allowance. The final adopted estimate represents an increase of 8.8 percent over final FY 2010 Public Utilities Gross Earnings tax collections.

Inheritance and Gift Taxes are estimated at $49.7 million in the final adopted FY 2011 revenue estimate, which is an increase of 75.6 percent, or $21.4 million, from the FY 2011 estimate adopted at the November 2010 REC. It should be noted that the increase is largely to refinements to the accrual and recognition of certain tax revenues as recommended to the Revenue Estimating Conference principals by the State Controller in concurrence with the Auditor General. The recommended refinements are consistent with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. These estimates incorporate the increase in the state's estate tax exemption amount to $859,350 effective for decedents whose death occurs after December 31, 2010. At $49.7 million, the final adopted FY 2011 estimate for Inheritance and Gift Taxes are expected to constitute 1.6 percent of revised total general revenues. The final adopted FY 2011 revenue estimate for Inheritance and Gift Taxes is 71.0 percent more than audited FY 2010 collections.

The final adopted FY 2011 revenue estimates for Realty Transfer Taxes are projected at $6.4 million, which represents negative growth of 8.5 percent from final FY 2010 levels.

Racing and Athletics Taxes are estimated at $1.3 million in the final adopted FY 2011 budget, an increase of $50,000 from the FY 2011 estimate adopted at the November 2010 REC. The final adopted estimate represents a decline of $191,221, or -12.9 percent, from audited FY 2010 collections. The final adopted FY 2011 estimate for Racing and Athletics Taxes accounts for the fact that greyhound racing will no longer be held at Twin River.

The total final adopted revenue estimate for all Other Taxes is 1.9 percent of final adopted total general revenues in FY 2011.

Final adopted FY 2011 departmental receipts are estimated to be $600,000 less than estimates adopted for FY 2011 departmental receipts collections at the November 2010 Revenue Estimating Conference. Final adopted FY 2011 departmental receipts comprise 10.8 percent of estimated total general revenues in FY 2011. Relative to final FY 2010 departmental receipt collections, the final adopted FY 2011 revenue estimate for departmental receipts yields a growth rate of 0.3 percent. In the licenses and fees category of departmental receipts, $141.8 million is expected as a result of the hospital licensing fee being assessed at 5.465 percent of 2009 net patient revenues for FY 2011.

The Other Sources component total of $373.4 million in the final adopted FY 2011 estimate represents an increase of $9.8 million, or 2.7 percent over the November 2010 REC adopted FY 2011 estimate. The final adopted FY 2011 estimate is an increase of 2.9 percent, or $10.4 million, compared to audited FY 2010 Other Sources collections. Final adopted FY 2011 Other Sources revenues are expected to comprise 12.1 percent of total general revenues for FY 2011.

The final adopted FY 2011 revenue estimate for Other Miscellaneous Revenues is $2.3 million more than the FY 2011 estimate adopted at the November 2010 REC and $663,483 higher than the final FY 2010 level, an increase of 5.3 percent. In FY 2010, Other Miscellaneous Revenues included a $3.6 million transfer from the Rhode Island State Fleet Revolving Fund. This transfer does not recur in FY 2011. Other Miscellaneous Revenues are projected at $13.1 million in final adopted FY 2011 revenue estimate, amounting to 0.4 percent of all general revenues.

Within the Gas Tax Transfer component, the final adopted FY 2011 revenue estimate reflects the fact that no portion of the State's $0.32 per gallon motor fuel tax is available for use as general revenue. Thus, the Gas Tax Transfer is estimated at zero for final adopted FY 2011 budget just as it was for the November 2010 Revenue Estimating Conference for FY 2011. Relative to the audited FY 2010 transfer, the final adopted FY 2011 gas tax transfer is 100.0 percent less.

Within the Lottery category, the final adopted FY 2011 revenue estimate of $353.2 million is $5.7 million, or 1.6 percent, more than the estimate adopted at the November 2010 REC for FY 2011. The final adopted estimate for FY 2011 incorporates the fact that the Rhode Island and Massachusetts lotteries can now sell MegaMillions and PowerBall tickets respectively. Prior to January 31, 2010, Rhode Island could only sell PowerBall tickets while Massachusetts could only sell MegaMillions tickets. The final adopted FY 2011 Lottery Transfer estimate is $8.5 million more than the audited FY 2010 transfer an increase of 2.5 percent. The final adopted FY 2011 lottery transfer estimate comprises 11.4 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. This transfer is expected to increase by $1.8 million in final adopted FY 2011 revenue estimate vs. the FY 2011 estimate adopted at the November 2010 REC. The final adopted FY 2011 estimate is an increase of $1.2 million or 21.0 percent, from the final FY 2010 transfer. The final adopted FY 2011 revenue estimate for the Unclaimed Property transfer is projected to be $7.1 million and is expected to comprise 0.2 percent of all general revenues.

Final Enacted FY 2011 Revenue Changes

The General Assembly's FY 2011 Final Enacted Budget was passed and signed by the Governor on June 30, 2011. The General Assembly's FY 2011 Final Enacted Budget was $146,893 less in total general revenues vis-à-vis total general revenues adopted at the May 2011 Revenue Estimating Conference. The net decrease in final enacted total general revenues is comprised of a decrease of $163,000 in the Lottery Transfer and an increase of $16,107 in Departmental Receipts.

Within Lottery, the General Assembly enacted legislation to restore the funds Newport Grand would have received in FY 2011 had the facility met the benchmarks set forth in the First Amendment to the Newport Grand Master Video Lottery Contract with regard to the joint marketing program contained therein. The Newport Grand joint marketing program requires the state to share in the cost of marketing Newport Grand's gaming offerings for approved marketing expenses in excess of $560,000. The state pays out of its share of Newport Grand's video lottery terminal net terminal income (NTI) 61.69 percent of the marketing expenses in excess of the $560,000 threshold. As a result, a revenue decrease of $163,000 is anticipated in FY 2011 and a decrease of $272,000 is expected for FY 2012.

The General Assembly's FY 2011 Final Enacted Budget enacts a revenue enhancement of $16,107 that is included in Departmental Receipts. This revenue enhancement is a result of the General Assembly's proposal and the Governor's approval to accept a grant provided by the Hospital Association of Rhode Island to the Department of Health (DOH) to assist in DOH's cancer registries research.

The net decrease of $146,893 in revenues contained in the Final Enacted FY 2011 Budget is less than 0.1 percent of the total revised general revenues adopted at the May 2011 Revenue Estimating Conference.

Revised FY 2012 General Revenues

The conferees of the May 2011 Revenue Estimating Conference adopted revised general revenue estimates for FY 2012 ("Revised FY 2012 Estimates") of $3.004 billion, a decrease of 2.8 percent from the May 2011 REC estimate of $3.091 billion for FY 2011. The estimated FY 2012 revenues do not include collections attributable to the Hospital Licensing Fee. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY 2012. All references to FY 2012 total general revenues do not include the value of the Hospital Licensing Fee which is estimated at $141.8 million in final adopted FY 2011 revenues. The FY 2012 revenue estimate assumes the State regains tax revenues in FY 2012 formerly lost from several taxes due to the historic structures tax credit, which will now be paid from the proceeds of revenue bonds that were issued by the Rhode Island Economic Development Corporation for that purpose.

The largest source of revised FY 2012 general revenues is the Personal Income Tax, with estimated receipts of $1.007 billion, $3.5 million more, or 0.3 percent greater, than the final adopted estimate for FY 2011. The revised FY 2012 Personal Income Taxes estimate has been grossed up to reflect the reimbursement of the State from the proceeds of Rhode Island Economic Development Corporation revenue bonds for historic structures tax credit certificates that are expected to be redeemed against personal income taxes.

Sales and Use Tax collections are estimated at a total of $828.7 million in the Revised FY 2012 Estimates. The Revised FY 2012 Estimate yields growth of 2.3 percent over the final adopted FY 2011 Sales and Use tax estimate.

Motor Vehicle operator license and vehicle registration fees are estimated to equal $51.6 million in the Revised FY 2012 Estimate. Relative to the final adopted FY 2011 estimate, the Revised FY 2012 Estimate for Motor Vehicle licenses and fees is up $100,000, or 0.2 percent. Motor Carrier Fuel Use Taxes are estimated at $1.1 million in FY 2012, the same level as was estimated for final enacted FY 2011 revenues.

The Cigarette excise tax component is estimated at $133.5 million in the Revised FY 2012 Estimate, a decrease of $3.4 million, or 2.5 percent from the final enacted FY 2011 level.

Alcohol Taxes are estimated at $12.1 million in the Revised FY 2012 Estimate, an increase of $200,000, or 1.7 percent over the final adopted FY 2011 estimate.

General Business Taxes are estimated to be $366.2 million in the Revised FY 2012 Estimate. Business Corporations Tax revenues are estimated to yield $120.3 million in the Revised FY 2012 Estimate, an increase of $25.2 million or 26.5 percent over the final adopted FY 2011 estimate. The increase in the FY 2012 estimate relative to the previous fiscal year largely reflects the impact of the refinement of the accrual in FY 2011. The FY 2012 Business Corporations Tax estimate reflects the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against business corporations taxes.

The revised FY 2012 Health Care Provider Assessments estimate is $41.4 million, which is $900,000 higher than the level contained in the final adopted FY 2011 estimate. This is an increase of 2.2 percent.

Insurance Companies Gross Premiums Taxes are revised to a total of $102.6 million in FY 2012. Insurance Companies Gross Premiums Taxes are expected to be 50.9 percent higher than the final adopted FY 2011 estimate. The increase in the FY 2012 estimate relative to the previous fiscal year largely reflects the impact of the refinement of the accrual in FY 2011. The revised FY 2012 Insurance Companies Gross Premiums Tax reflects the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against insurance companies gross premiums taxes.

FY 2012 Financial Institution Taxes are revised to $500,000 less than the FY 2011 final adopted estimate. At a total of $500,000, the estimated FY 2012 level of Financial Institutions Taxes is 50.0 percent less than the final adopted estimate for FY 2011. The Revised FY 2012 Estimate of Financial Institutions Tax estimate reflects the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against financial institution taxes.

Revised FY 2012 Bank Deposits Taxes are estimated at the same level as in the final enacted FY 2011 estimate, a total of $2.0 million.

The Public Utilities Gross Earnings Taxes reflected in the Revised FY 2012 Estimate are $4.8 million less than the final adopted FY 2011 general revenue estimates. The revised FY 2012 Public Utilities Gross Earnings Taxes are $99.4 million. The decrease in the FY 2012 estimate relative to the previous fiscal year partially reflects the impact of the allowance decrease in FY 2011. The FY 2012 Public Utilities Gross Earnings Tax revised estimate reflects the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against public utilities gross earnings taxes.

Inheritance and Gift Taxes are revised to $29.3 million for FY 2012. This revenue estimate includes two full year's worth of the increase in the exemption amount above which an estate becomes subject to Rhode Island's estate tax. The revised revenue loss from this change in the estate tax exemption amount is approximately $1.7 million in FY 2012. The FY 2012 revised estimate for Inheritance and Gift Taxes is 41.0 percent less than the final adopted FY 2011 estimate. The decrease in the FY 2012 estimate relative to the previous fiscal year largely reflects the impact of the refinement of the accrual in FY 2011.

Realty Transfer Taxes reflected in the Revised FY 2012 Estimate are $6.5 million, which is $100,000 higher, than the final adopted FY 2011 estimate. Racing and Athletics Taxes are revised for FY 2012 at $100,000 below the level contained in the final adopted FY 2011 estimate. This estimate represents a decline of 7.7 percent, from final adopted FY 2011 levels. Racing and Athletics Taxes revised for FY 2012 are $1.2 million.

Departmental Receipts reflected in the Revised FY 2012 Estimate are expected to generate $138.7 million less than the final FY 2011 level adopted at the May 2011 Revenue Estimating Conference. This difference is more than accounted for by the fact that the FY 2012 estimate for departmental receipts does not include the Hospital Licensing Fee which is estimated to generate $141.8 million in final adopted FY 2011. The Revenue Estimating Conference does not estimate the Hospital Licensing Fee because it is authorized annually by the General Assembly and therefore is not considered current law beyond the single year for which it is authorized. Relative to final adopted FY 2011 departmental receipt levels, the FY 2012 estimate of departmental receipts yields a growth rate of -41.5 percent.

The Other Sources component in the Revised FY 2012 Estimate is $371.2 million, which represents a decrease of 0.6 percent, or $2.2 million, compared to the final adopted FY 2011 Other Sources estimate.

The May 2011 Revenue Estimating Conference's Revised FY 2012 Estimate for Other Miscellaneous Revenues is $9.3 million lower than the final adopted FY 2011 level, a decrease of 70.9 percent. In FY 2011, Other Miscellaneous Revenues included $5.5 million in judicial child support enforcement recoveries. This one time receipt does not recur in FY 2012. Other Miscellaneous Revenues are revised to $3.8 million in FY 2012.

Within the Gas Tax Transfer component, the May 2011 Conference's FY 2012 revised estimate shows no change from the final adopted FY 2011 estimate. The Gas Tax Transfer is estimated at zero due to the fact that the general fund no longer receives an allocation from the Intermodal Surface Transportation Fund (ISTF). That is, all of the revenue generated from the state's $0.32 per gallon motor fuel tax now remains with the ISTF and is reserved for transportation purposes.

In revised FY 2012, the Lottery Transfer is estimated to be $361.2 million. Within the Lottery category, the FY 2012 estimate is $8.0 million greater than the final adopted FY 2011 transfer, an increase of 2.3 percent. The FY 2012 estimate incorporates both 24/7 operations at the State's video lottery terminal facilities and the cross selling of MegaMillions and PowerBall in the states of Rhode Island and Massachusetts.

The final category of general revenues is the Unclaimed Property transfer. In the Revised FY 2012 Estimate, this transfer is estimated at an amount of $6.2 million, a decrease of $900,000, or 12.7 percent, from the final adopted FY 2011 transfer.

FY 2012 Enacted Revenues

The General Assembly's enacted FY 2012 budget estimates general revenues of $3.176 billion, an increase of 2.8 percent from the final enacted FY 2011 level. The General Assembly's enacted revenue is comprised of $3.004 billion of revenue estimated at the May 2011 Revenue Estimating Conference and $172.1 million of changes to the revised estimates.

The largest source of enacted FY 2012 general revenues is the Personal Income Tax, with estimated receipts of $1.010 billion, $2.9 million more than the May 2011 REC revised estimate for FY 2012 or growth of 0.6 percent from the final enacted FY 2011 amount. This revenue increase is a result of adding four full time equivalent Revenue Agent I positions in the Division of Taxation, instituting a separate top 100 delinquent individual taxpayers list, and allowing the State Tax Administrator to offset lottery winnings for debts owed to the State. It is estimated that the four additional staff in the Division of Taxation will generate $2.0 million in additional personal income tax revenue in FY 2012. The separate list of delinquent individual taxpayers is estimated to increase personal income tax receipts in FY 2012 by $779,965. allowing the State Tax Administrator to offset lottery winnings in excess of $600.00 for debts owed to the state is estimated to increase enacted FY 2012 personal income tax collections by $141,457. Personal income tax receipts are expected to comprise 31.8 percent of enacted total general revenues in FY 2012.

General Business taxes are projected to represent 11.6 percent of enacted total general revenue collections in the FY 2012 budget year. Business Corporations Tax revenues are expected to yield $121.2 million, an increase of $924,665 from the revised FY 2012 estimate agreed to at the May 2011 REC. This increase is the result of establishing a separate top 100 delinquent business taxpayers list and subjecting limited partnerships and limited liability partnerships to the $500 corporate minimum tax. These legislative changes result in an anticipated revenue gain of $130,415 and $794,250 respectively in the enacted FY 2012 budget. The estimated growth rate in business corporations taxes over the final enacted FY 2011 estimate is 27.5 percent. The increase in the enacted FY 2012 estimate relative to the previous fiscal year is due in part to the impact of the refinement of the accrual in FY 2011. Business corporation tax receipts are expected to comprise 3.8 percent of enacted total general revenues in FY 2012.

Insurance Companies Gross Premiums taxes are projected to reach $102.6 million in the enacted FY 2012 budget. This amount is equal to the FY 2012 estimate for insurance companies gross premiums taxes adopted at the May 2011 Revenue Estimating Conference. The growth rate in enacted FY 2012 insurance companies gross premiums taxes over the FY 2011 final enacted estimate is 50.9 percent. The increase in the FY 2012 estimate relative to the previous fiscal year is due in part to the impact of the refinement of the accrual in FY 2011. Insurance companies gross premiums tax receipts are expected to comprise 3.2 percent of enacted total general revenues in FY 2012.

Health Care Provider Assessment revenues are expected to result in $41.3 million, a decrease of $72,871 from the FY 2012 estimate adopted at the May 2011 REC. This decrease is a result of the elimination of the "cost-of-living adjustment" (COLA) in nursing home provider rates that would have taken effect on July 1, 2011. The COLA would have been in addition to increased funding of $6.5 million for nursing home providers in FY 2012. The amount of the COLA would have been subject to the 5.5 percent health care provider assessment. As a result, a revenue decrease of $348,759 is anticipated for the enacted FY 2012 budget vis-à-vis the FY 2012 estimate adopted at the May 2011 REC. This decrease is partially offset by an estimated increase in health care provider assessment tax receipts of $275,888 from the establishment of a separate top 100 delinquent business taxpayers list by the Division of Taxation. Health care provider assessment receipts are expected to comprise 1.3 percent of enacted total general revenues in FY 2012.

FY 2012 enacted revenues for the Public Utilities Gross Earnings tax, the Financial Institutions tax, and the Bank Deposits tax are at the same levels for FY 2012 as were adopted at the May 2011 Revenue Estimating Conference. The respective FY 2012 enacted growth rates for these taxes relative to the FY 2011 final enacted estimates are -4.6 percent, -50.0 percent, and 0.0 percent respectively. Public utilities gross earnings tax receipts are expected to comprise 3.1 percent of enacted total general revenues in FY 2012. Financial institutions tax receipts are expected to comprise less than 0.1 percent of enacted total general revenues in FY 2012. Bank deposits tax receipts are expected to comprise 0.1 percent of enacted total general revenues in FY 2012.

Sales and Use Tax collections are expected to yield $846.5 million in FY 2012, or $17.8 million more than the level adopted for FY 2012 at the May 2011 Revenue Estimating Conference. This increase is a result of the General Assembly's expansion the sales tax base to four previously exempt items: (1) package tour and scenic and sightseeing transportation services; (2) prewritten computer software delivered electronically or by load and leave; (3) patent medicines available without a prescription, including medical marijuana; and (4) insurance proceeds received from the total loss of a passenger automobile that were previously allowed as a trade-in allowance when purchasing a replacement passenger automobile. Application of the state's 7.0 percent sales tax rate to these items effective October 1, 2011 is expected to increase sales and use tax revenues by $17.1 million in FY 2012. Rescinding RIEDC's and RIIFC's ability to grant sales and use tax exemptions to project designees and lessees effective July 1, 2011on a prospective basis is expected to increase FY 2012 sales and use tax receipts by $100,000. Instituting a separate top 100 delinquent taxpayers list for businesses is estimated to increase FY 2012 enacted sales and use tax revenues by $602,399. The General Assembly's FY 2012 enacted estimate for sales and use taxes signifies growth of 4.5 percent over the FY 2011 final enacted estimate. Sales and Use Taxes are anticipated to contribute 26.7 percent of enacted total general revenues in FY 2012.

Motor Vehicle operator license and vehicle registration fees are enacted to equal $51.6 million in FY 2012 the same level that was adopted at the May 2010 REC. Motor Carrier Fuel Use Taxes are estimated to reach $1.1 million in FY 2012, Cigarettes tax revenues are expected to total $133.5 million, and Alcohol Taxes are anticipated to equal $12.1 million in FY 2012. Each of these enacted revenue amounts are the same as the estimates adopted at the May 2011 Revenue Estimating Conference. Of these revenue items, cigarettes taxes are expected to comprise 4.2 percent of enacted total general revenues in FY 2012; motor vehicle registration and license fees are expected to contribute 1.6 percent of total general revenues in FY 2012; alcohol taxes are expected to comprise 0.4 percent of enacted total general revenues in FY 2012; and motor carrier fuel use taxes are expected to contribute less than 0.1 percent of enacted total general revenues in FY 2012.

Inheritance and Gift Taxes are projected to equal the $29.3 million in FY 2012, the amount adopted at the May 2011 Revenue Estimating Conference. The FY 2012 enacted estimate for inheritance and gift taxes is 41.0 percent less than the FY 2011 final enacted estimate. FY 2012 Realty Transfer Taxes are enacted at the same level adopted at the May 2011 Revenue Estimating Conference, with anticipated collections of $6.5 million, an increase of $100,000 from the final enacted FY 2011 level. Racing and Athletics Taxes are also enacted at the level adopted for FY 2012 at the May 2011 Revenue Estimating Conference. This estimate represents a decline of $100,000, or -7.7 percent, from the final enacted FY 2011 estimate. Total Racing and Athletics Taxes projected in FY 2012 are $1.2 million. Other taxes will comprise 1.2 percent of enacted total general revenues in FY 2012.

Enacted FY 2012 Departmental Receipts are expected to generate $148.1 million more than the estimate for FY 2012 adopted at the May 2011 REC. Inclusive of the General Assembly's enacted changes to departmental receipts, total departmental revenues are enacted to be $343.5 million in FY 2012, or 10.8 percent of total general revenues. This enacted estimate is growth of 2.8 percent from the final enacted revenue estimate for FY 2011. In the licenses and fees category, $147.7 million more is expected due primarily to the General Assembly reinstatement of the Hospital Licensing fee for one year using the rate of assessment of 5.430 percent and the base of FY 2010 net patient revenues. The FY 2012 enacted departmental revenues figure includes the following changes to the Departmental Receipts estimate adopted at the May 2011 Revenue Estimating Conference:

- An increase of $144.0 million from reinstituting the hospital licensing fee;
- An increase of $18,720 from implementing a $25.00 charge for checks returned to the Division of Motor Vehicles due to non-sufficient funds;
- An increase of $1.5 million from increasing the daily and annual pass fees for residents and non-residents on both weekdays and weekends to park at state beaches;
- An increase of $1.2 million from increasing the license fee for securities sales representatives to $75 annually;
- An increase of $41,000 from increasing the license fee for federal covered advisors to $300 annually;
- An increase of $108,915 from increasing the estate tax filing fee to $50;
- An increase of $122,925 from increasing the letter of good standing fee to $50;

- An increase of $693,693 by levying a surcharge of 4.0 percent on the net revenues of compassion centers;
- An increase of $110,000 from instituting a fee of $10.00 for the Department of Children, Youth, and Families' conducting of applicant background clearances;
- An increase of $153,576 in probation and parole monies owed from the offset of personal income tax refunds by the Division of Taxation;
- An increase of $250,000 for the Department of Human Services "Work Support Strategies" grant aimed to help improve the provision of services to low-income working families;

The FY 2012 enacted revenues for the other sources component totals $373.6 million, an increase of $2.3 million compared to the revenue estimate adopted at the May 2011 REC for FY 2012. The change in other sources of revenue is attributed to the transfer of $3.5 million in excess reserves from the Rhode Island Resource Recovery Corporation (RIRRC) to the general fund and a decrease of $1.0 million from the transfer of receipts received from the sale of state property to the information technology revolving fund in FY 2012, a reduction of $868,490 for the enhanced net terminal income share to the Town of Lincoln for the twenty four hour operation of Twin River, the realization of savings within the Division of Lottery resulting in an increase of $982,593 to be transferred to the State, and the restoration of $272,000 in marketing funds to Newport Grand they would have received for reaching certain benchmark provisions.

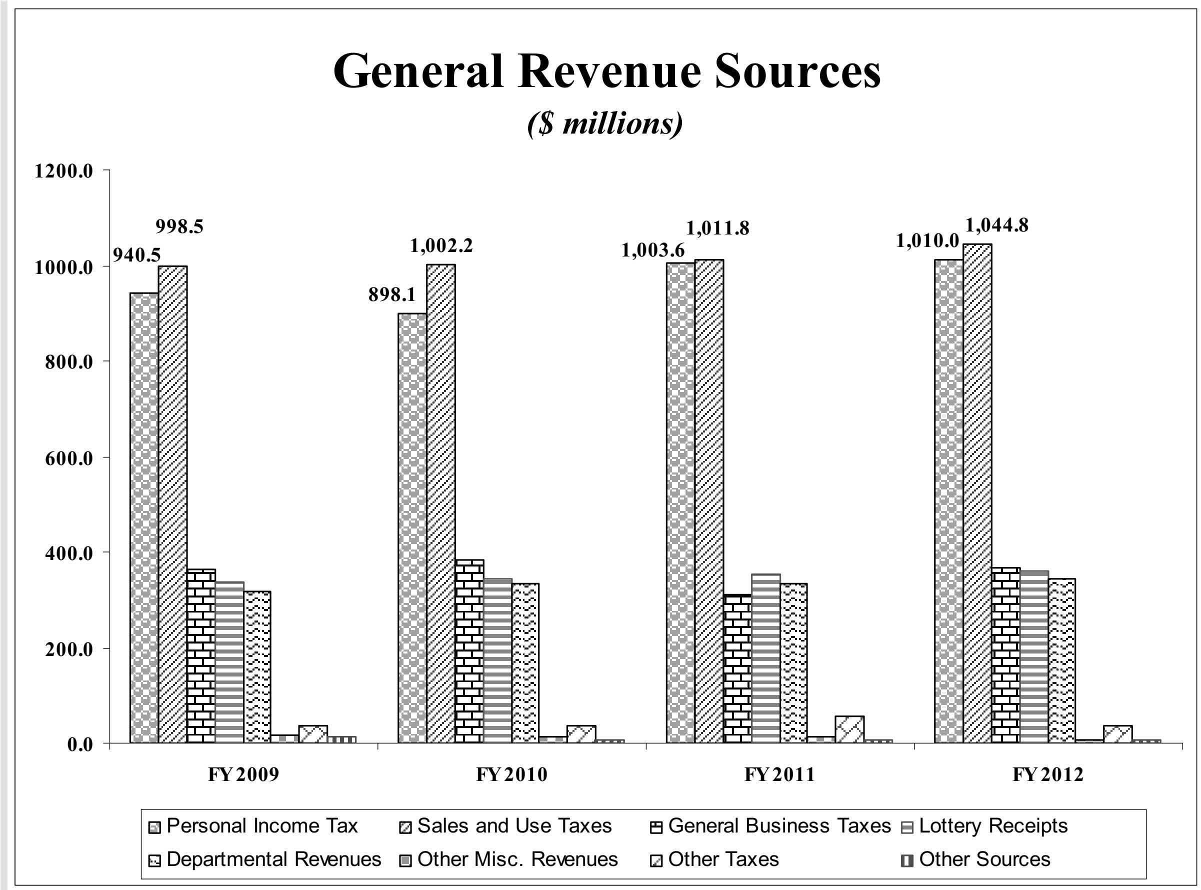
Other Miscellaneous Revenues are anticipated to generate $7.3 million in FY 2012 an increase of $2.5 million from the level adopted at the May 2011 Revenue Estimating Conference, which is a result of the $3.5 million transfer from RIRRC to the general fund and the $1.0 million transfer from the general fund to the information technology revolving fund restricted receipt account. Other miscellaneous revenues are expected to comprise 0.2 percent of enacted total general revenues in FY 2012.

Within the Gas Tax Transfer component, the enacted FY 2012 budget shows no change from the FY 2011 final enacted estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's $0.32 per gallon motor fuel tax.

Within the Lottery category, the enacted FY 2012 budget is $8.0 million greater than the final enacted FY 2011 estimate, an increase of 2.3 percent. The General Assembly's enacted FY 2012 budget realizes $982,593 in expenditure savings within the Division of Lottery which results in a larger transfer to the general fund, a decrease of $868,490 for the enhanced net terminal income share to the Town of Lincoln, and a decrease of $272,000 for the restoration of Newport Grand's marketing funds. As a result, the enacted FY 2012 estimate is $157,897 less then the revised May 2011 Revenue Estimating Conference estimate for the FY 2012 Lottery Transfer. In FY 2012, the Lottery Transfer is expected to be $361.0 million and comprise 11.4 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property Transfer. In enacted FY 2012, this transfer is expected to decrease by $900,000, or 12.7 percent, from the final enacted FY 2011 estimate. The Unclaimed Property Transfer is projected to be $6.2 million in enacted FY 2012, and comprises 0.2 percent of all general revenues.

The following chart shows the sources of general revenues for the period FY 2009 – FY 2012. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted. The general revenue amounts reflected in the chart for FY 2009 and FY 2010 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. The general revenue amounts reflected for FY 2011 and FY 2012 are the amounts reflected in the current enacted budgets for FY 2011 and FY 2012.



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2009 through 2012 and expenditures for the fiscal years 2009 through 2012. General Fund data on expenditures for FY 2009 and FY 2010 is derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. Expenditures for the Original Enacted FY 2011 Budget reflect the budget enacted by the General Assembly in June 2010. Expenditures for Revised FY 2011 Budget reflect the supplemental budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011. The expenditures for FY 2012 reflect those contained in the FY 2012 Budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011. 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 2009 and FY 2010 reflect the audited actual revenues as reported by the State Controller. FY 2011 Original Enacted revenues reflect those estimated at the May 2010 Revenue Estimating Conference adjusted by changes enacted by the 2010 General Assembly in the FY 2011 Budget. FY 2011 Revised reflects the May 2011 Revenue Estimating Conference revenues, as amended by the General Assembly in the final enacted supplemental budget. The FY 2012 revenues reflect those adopted by the Conferees at the May 2011 Revenue Estimating Conference and any statutory changes approved by the General Assembly as part of the final enacted FY 2012 Budget. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Enacted

		FY 2009 Audited		FY 2010 Audited		FY 2011 Original Enacted		FY 2011 Final Enacted		FY 2012 Enacted
Personal Income Tax	$	940,513,781	$	898,113,113	$	937,900,000	$	1,003,600,000	$	1,010,021,422
General Business Taxes										
Business Corporations		104,436,811		146,834,598		119,000,000		95,100,000		121,224,665
Public Utilities Gross Earnings		126,664,890		95,792,717		98,000,000		104,200,000		99,400,000
Financial Institutions		5,358,740		2,319,242		1,000,000		1,000,000		500,000
Insurance Companies		78,016,930		95,921,454		101,250,000		68,000,000		102,600,000
Bank Deposits		1,802,796		1,860,271		2,200,000		2,000,000		2,000,000
Health Care Provider Assessment		46,030,570		40,254,281		39,800,000		40,500,000		41,327,129
Sales and Use Taxes										
Sales and Use		807,946,985		803,394,856		787,000,000		810,400,000		846,512,902
Motor Vehicle		47,925,805		48,285,182		48,500,000		51,500,000		51,600,000
Motor Fuel		1,325,034		968,870		1,000,000		1,100,000		1,100,000
Cigarettes		130,503,213		138,315,461		134,000,000		136,900,000		133,500,000
Alcohol		10,811,831		11,269,477		11,700,000		11,900,000		12,100,000
Other Taxes										
Inheritance and Gift		28,096,912		29,056,952		27,600,000		49,700,000		29,300,000
Racing and Athletics		2,450,809		1,492,221		1,300,000		1,300,000		1,200,000
Realty Transfer		6,811,322		6,993,915		6,900,000		6,400,000		6,500,000
Total Taxes	**$**	**2,338,696,429**	**$**	**2,320,872,610**	**$**	**2,317,150,000**	**$**	**2,383,600,000**	**$**	**2,458,886,118**
Departmental Receipts	$	318,804,246	$	333,128,045	$	345,226,745	$	334,116,107	$	343,543,141
Taxes and Departmentals	**$**	**2,657,500,675**	**$**	**2,654,000,655**	**$**	**2,662,376,745**	**$**	**2,717,716,107**	**$**	**2,802,429,259**
Other Sources										
Gas Tax Transfer	$	4,327,710	$	24,134	$	-	$	-	$	-
Other Miscellaneous		17,813,994		12,466,517		5,331,000		13,130,000		6,325,000
Lottery		337,515,478		344,672,747		346,138,520		353,037,000		361,042,103
Unclaimed Property		8,044,126		5,867,150		6,000,000		7,100,000		6,200,000
Other Sources	**$**	**367,701,308**	**$**	**363,030,548**	**$**	**357,469,520**	**$**	**373,267,000**	**$**	**373,567,103**
Total General Revenues	**$**	**3,025,201,983**	**$**	**3,017,031,203**	**$**	**3,019,846,265**	**$**	**3,090,983,107**	**$**	**3,175,996,362**

FY 2011 Changes to Adopted Estimates

	November 2010 Rev Est Conf	May 2011 Rev Est Conf	General Assebly Enacted Changes	FY 2011 Final Enacted
Personal Income Tax	$ 936,500,000	$ 1,003,600,000	$ -	$ 1,003,600,000
General Business Taxes				
Business Corporations	123,300,000	95,100,000	$ -	95,100,000
Public Utilities Gross Earnings	97,000,000	104,200,000	$ -	104,200,000
Financial Institutions	250,000	1,000,000	$ -	1,000,000
Insurance Companies	98,200,000	68,000,000	$ -	68,000,000
Bank Deposits	1,900,000	2,000,000	$ -	2,000,000
Health Care Provider Assessment	40,500,000	40,500,000	$ -	40,500,000
Sales and Use Taxes				
Sales and Use	805,500,000	810,400,000	$ -	810,400,000
Motor Vehicle	51,800,000	51,500,000	$ -	51,500,000
Motor Fuel	1,100,000	1,100,000	$ -	1,100,000
Cigarettes	135,000,000	136,900,000	$ -	136,900,000
Alcohol	12,000,000	11,900,000	$ -	11,900,000
Other Taxes				
Inheritance and Gift	28,300,000	49,700,000	$ -	49,700,000
Racing and Athletics	1,250,000	1,300,000	$ -	1,300,000
Realty Transfer	6,400,000	6,400,000	$ -	6,400,000
Total Taxes	**$ 2,339,000,000**	**$ 2,383,600,000**	**$ -**	**$ 2,383,600,000**
Departmental Receipts	$ 334,700,000	$ 334,100,000	$ 16,107	$ 334,116,107
Taxes and Departmentals	**$ 2,673,700,000**	**$ 2,717,700,000**	**$ 16,107**	**$ 2,717,716,107**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	10,855,000	13,130,000	$ -	13,130,000
Lottery	347,500,000	353,200,000	$ (163,000)	353,037,000
Unclaimed Property	5,300,000	7,100,000	$ -	7,100,000
Other Sources	**$ 363,655,000**	**$ 373,430,000**	**$ (163,000)**	**$ 373,267,000**
Total General Revenues	**$ 3,037,355,000**	**$ 3,091,130,000**	**$ (146,893)**	**$ 3,090,983,107**

FY 2012 Changes to Adopted Estimates

	November 2010 Rev Est Conf	May 2011 Rev Est Conf	General Assembly Enacted Changes	FY 2012 Enacted
Personal Income Tax	$ 947,800,000	$ 1,007,100,000	$ 2,921,422	$ 1,010,021,422
General Business Taxes				
Business Corporations	131,000,000	120,300,000	$ 924,665	121,224,665
Public Utilities Gross Earnings	99,000,000	99,400,000	$ -	99,400,000
Financial Institutions	500,000	500,000	$ -	500,000
Insurance Companies	100,700,000	102,600,000	$ -	102,600,000
Bank Deposits	1,950,000	2,000,000	$ -	2,000,000
Health Care Provider Assessment	41,800,000	41,400,000	$ (72,871)	41,327,129
Sales and Use Taxes				
Sales and Use	824,000,000	828,700,000	$ 17,812,902	846,512,902
Motor Vehicle	51,900,000	51,600,000	$ -	51,600,000
Motor Fuel	1,100,000	1,100,000	$ -	1,100,000
Cigarettes	131,800,000	133,500,000	$ -	133,500,000
Alcohol	12,200,000	12,100,000	$ -	12,100,000
Other Taxes				
Inheritance and Gift	28,900,000	29,300,000	$ -	29,300,000
Racing and Athletics	1,100,000	1,200,000	$ -	1,200,000
Realty Transfer	6,500,000	6,500,000	$ -	6,500,000
Total Taxes	**$ 2,380,250,000**	**$ 2,437,300,000**	**$ 21,586,118**	**$ 2,458,886,118**
Departmental Receipts	$ 197,300,000	$ 195,400,000	$ 148,143,141	$ 343,543,141
Taxes and Departmentals	**$ 2,577,550,000**	**$ 2,632,700,000**	**$ 169,729,259**	**$ 2,802,429,259**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	3,790,000	3,825,000	$ 2,500,000	6,325,000
Lottery	351,500,000	361,200,000	$ (157,897)	361,042,103
Unclaimed Property	5,200,000	6,200,000	$ -	6,200,000
Other Sources	**$ 360,490,000**	**$ 371,225,000**	**$ 2,342,103**	**$ 373,567,103**
Total General Revenues	**$ 2,938,040,000**	**$ 3,003,925,000**	**$ 172,071,362**	**$ 3,175,996,362**

Expenditures from All Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
General Government					
Administration (1)	$590,402,612	$557,074,835	$499,299,809	$537,086,462	$413,935,351
Business Regulation	9,890,284	9,313,438	10,899,430	11,266,788	18,007,098
Labor and Training	802,946,556	1,022,130,923	833,558,439	919,053,019	571,666,655
Revenue	228,202,474	269,354,051	236,330,417	260,319,158	316,676,398
Legislature	33,526,670	32,080,717	39,049,144	38,545,405	38,197,252
Lieutenant Governor	852,985	848,369	924,479	898,100	1,090,172
Secretary of State	7,031,779	5,999,701	7,503,274	7,340,745	6,872,860
General Treasurer	25,478,600	26,761,576	33,018,358	29,369,293	33,200,576
Board of Elections	2,042,870	1,202,211	3,957,971	3,329,526	1,875,905
Rhode Island Ethics Commission	1,349,727	1,366,012	1,482,659	1,454,869	1,560,008
Governor's Office	5,171,858	5,320,273	6,251,152	5,195,987	5,256,095
Commission for Human Rights	1,373,186	1,284,241	1,371,667	1,376,215	1,455,570
Public Utilities Commission	5,635,606	5,989,976	7,726,656	7,715,020	8,105,006
Rhode Island Commission on Women	112,321	71,068	0	0	0
Subtotal - General Government	**$1,714,017,528**	**$1,938,797,391**	**$1,681,373,455**	**$1,822,950,587**	**$1,417,898,946**
Human Services					
Office of Health & Human Services	7,075,641	5,089,966	7,167,709	7,727,690	16,928,680
Children, Youth, and Families	249,961,029	234,187,262	237,598,173	229,715,013	211,004,272
Elderly Affairs (2)	32,652,770	25,226,866	26,712,596	32,588,121	0
Health	122,192,215	131,659,235	116,146,808	137,262,439	110,193,818
Human Services (2)	1,834,948,238	2,030,770,762	2,285,305,550	2,241,419,981	2,331,251,725
Mental Health, Retardation, & Hospitals	466,591,487	458,930,214	446,750,327	448,934,619	441,122,327
Veterans Affairs	0	0	0	0	0
Governor's Commission on Disabilities	599,120	578,829	824,453	820,911	829,892
Commission On Deaf and Hard of Hearing	337,416	339,304	362,824	364,802	387,985
State Council on Developmental Disabilities	0	0	-	0	0
Office of the Child Advocate	512,005	552,865	589,627	602,749	652,432
Office of the Mental Health Advocate	441,061	381,030	440,950	409,733	468,718
Subtotal - Human Services	**$2,715,310,982**	**$2,887,716,333**	**$3,121,899,017**	**$3,099,846,058**	**$3,112,839,849**
Education					
Elementary and Secondary	1,055,130,894	1,080,094,111	1,128,732,869	1,169,821,597	1,133,884,351
Higher Education - Board of Governors	842,410,188	901,551,465	937,802,389	988,040,552	996,844,842
RI Council on the Arts	2,602,169	3,014,458	3,054,336	3,545,952	3,086,926
RI Atomic Energy Commission	1,119,073	1,141,723	1,492,350	1,472,182	1,511,526
Higher Education Assistance Authority	27,244,768	23,669,359	25,789,109	27,523,158	27,412,147
Historical Preservation and Heritage Comm.	2,021,139	1,901,211	2,663,971	2,693,579	2,869,173
Public Telecommunications Authority	1,923,277	1,607,931	1,672,717	1,576,059	1,631,172
Subtotal - Education	**$1,932,451,508**	**$2,012,980,258**	**$2,101,207,741**	**$2,194,673,079**	**$2,167,240,137**

Expenditures from All Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
Public Safety					
Attorney General	23,273,491	22,310,578	23,861,219	25,018,436	26,711,046
Corrections	179,135,561	173,870,935	187,181,519	188,179,176	195,375,598
Judicial	93,784,592	91,925,710	97,379,996	98,804,238	101,948,934
Military Staff	28,850,448	25,640,295	26,638,164	60,648,441	35,119,240
Public Safety (3)	78,958,901	98,996,111	86,749,570	92,118,940	104,450,377
Office Of Public Defender	9,272,215	9,124,681	10,020,401	10,160,218	10,876,941
Subtotal - Public Safety	**$413,275,208**	**$421,868,310**	**$431,830,869**	**$474,929,449**	**$474,482,136**
Natural Resources					
Environmental Management	66,566,249	64,770,868	93,120,711	99,911,007	97,520,399
Coastal Resources Management Council	3,607,015	5,623,950	4,383,711	9,265,099	5,254,375
Water Resources Board	1,132,330	1,235,380	1,436,540	1,809,613	0
Subtotal - Natural Resources	**$71,305,594**	**$71,630,198**	**$98,940,962**	**$110,985,719**	**$102,774,774**
Transportation					
Transportation	358,368,552	375,941,217	428,893,766	453,801,024	426,986,933
Subtotal - Transportation	**$358,368,552**	**$375,941,217**	**$428,893,766**	**$453,801,024**	**$426,986,933**
Total	**$7,204,729,372**	**$7,708,933,707**	**$7,864,145,810**	**$8,157,185,916**	**$7,702,222,775**

(1) In FY 2010 Fire Code Board was moved to Department of Adminsitration. In FY 2012, the Sheriffs program was moved from Department of Administration to Department of Public Safety.

(2) The Department of Elderly Affairs was merged into the Department of Human Services in the FY 2012 Enacted Budget.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission and in FY 2012, the Sheriffs Program.

Expenditures from General Revenues

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
General Government					
Administration (1)	$475,081,231	$418,405,347	$324,063,375	$334,437,010	$246,446,221
Business Regulation	8,527,975	8,078,396	9,156,047	$8,744,355	$9,436,378
Labor and Training	6,433,976	6,308,677	7,117,031	$6,930,789	$7,575,486
Revenue	32,332,042	32,476,057	35,479,085	$35,941,529	$92,610,905
Legislature	32,018,334	30,577,686	37,474,136	$36,970,091	$36,548,053
Lieutenant Governor	852,985	848,369	924,479	$898,100	$965,940
Secretary of State	6,318,528	5,142,947	6,908,707	$6,754,217	$6,376,312
General Treasurer	2,353,049	2,072,608	2,270,649	$2,342,202	$2,300,852
Board of Elections	1,547,546	1,092,280	3,957,971	$3,219,832	$1,825,905
Rhode Island Ethics Commission	1,349,727	1,366,012	1,482,659	$1,454,869	$1,560,008
Governor's Office	4,627,388	4,344,370	4,752,606	$4,343,698	$4,338,521
Commission for Human Rights	918,461	959,253	1,014,978	$1,214,446	$1,154,038
Public Utilities Commission	0	-	-	$0	$0
Rhode Island Commission on Women	112,321	71,068	0	$0	$0
Subtotal - General Government	**$572,473,563**	**$511,743,070**	**$434,601,723**	**$443,251,138**	**$411,138,619**
Human Services					
Office of Health & Human Services	3,434,394	3,253,566	3,420,163	$3,526,817	$9,773,834
Children, Youth, and Families	160,349,512	152,831,095	153,046,095	$152,893,449	$145,198,983
Elderly Affairs (2)	14,056,867	7,994,872	10,100,599	$9,700,012	$0
Health	26,238,748	25,221,245	27,624,903	$27,988,683	$24,248,025
Human Services (2)	661,474,680	653,605,790	715,328,654	$741,295,264	$893,131,302
Mental Health, Retardation, & Hospitals	184,060,035	160,665,295	163,684,244	$170,429,040	$184,249,569
Veterans Affairs	0	0	0	$0	$0
Governor's Commission on Disabilities	383,043	343,441	367,229	$363,308	$388,786
Commission On Deaf and Hard of Hearing	341,316	339,304	362,824	$364,802	$387,985
State Council on Developmental Disabilities	-	-	-	$0	$0
Office of the Child Advocate	501,518	506,961	543,822	$556,047	$603,384
Office of the Mental Health Advocate	441,061	381,030	440,950	$409,733	$468,718
Subtotal - Human Services	**$1,051,281,174**	**$1,005,142,599**	**$1,074,919,483**	**$1,107,527,155**	**$1,258,450,586**
Education					
Elementary and Secondary	826,168,088	803,066,786	856,068,541	$845,970,065	$863,077,600
Higher Education - Board of Governors	170,880,181	161,108,248	163,606,843	$162,333,194	$166,487,219
RI Council on the Arts	1,591,482	1,615,295	1,668,346	$1,660,383	$1,678,862
RI Atomic Energy Commission	850,234	769,039	875,781	$861,031	$879,592
Higher Education Assistance Authority	7,283,678	6,611,632	6,723,347	$7,320,186	$5,913,104
Historical Preservation and Heritage Comm.	1,241,496	1,256,875	1,348,717	$1,376,519	$1,469,797
Public Telecommunications Authority	1,206,333	1,000,695	1,035,967	$929,325	$947,960
Subtotal - Education	**$1,009,221,492**	**$975,428,570**	**$1,031,327,542**	**$1,020,450,703**	**$1,040,454,134**

Expenditures from General Revenues

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
Public Safety					
Attorney General	20,811,434	19,592,235	21,209,730	$21,263,366	$22,442,867
Corrections	154,269,705	169,892,046	178,329,401	$177,661,565	$182,141,365
Judicial	81,658,621	78,865,431	84,575,255	$84,392,428	$87,073,983
Military Staff	3,489,128	4,104,899	2,782,435	$3,966,145	$3,470,928
Public Safety (3)	63,138,452	54,155,469	67,024,490	$68,540,272	$89,407,711
Office Of Public Defender	8,986,912	9,013,466	9,590,261	$9,541,448	$10,300,580
Subtotal - Public Safety	**$332,354,252**	**$335,623,546**	**$363,511,572**	**$365,365,224**	**$394,837,434**
Natural Resources					
Environmental Management	32,853,889	32,646,082	34,403,329	$34,268,194	$35,383,601
Coastal Resources Management Council	2,002,176	1,938,722	2,038,515	$2,063,203	$2,236,814
Water Resources Board	998,006	1,052,485	1,316,540	$1,278,435	$0
Subtotal - Natural Resources	**$35,854,071**	**$35,637,289**	**$37,758,384**	**$37,609,832**	**$37,620,415**
Transportation					
Transportation	-	-	-	$0	$0
Subtotal - Transportation	-	-	-	-	-
Total	**$3,001,184,448**	**$2,863,574,992**	**$2,942,118,704**	**$2,974,204,052**	**$3,142,501,188**

(1) In FY 2010 Fire Code Board was moved to Department of Adminsitration. In FY 2012, the Sheriffs program was moved from Department of Administration to Department of Public Safety.

(2) The Department of Elderly Affairs was merged into the Department of Human Services in the FY 2012 Enacted Budget.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor’s Justice Commission and in FY 2012, the Sheriffs Program.

Expenditures from Federal Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
General Government					
Administration (1)	$49,085,955	$57,534,460	$79,572,545	$107,645,920	$69,084,207
Business Regulation	87,315	0	-	$758,454	$6,803,273
Labor and Training	69,695,640	330,506,335	181,957,663	$221,153,642	$99,763,402
Revenue	1,551,480	1,803,123	2,289,770	$2,615,000	$2,636,059
Legislature	-	-	-	$0	$0
Lieutenant Governor	-	-	-	$0	$124,232
Secretary of State	285,132	397,172	100,000	$127,092	$0
General Treasurer	783,113	1,072,595	1,108,180	$1,131,024	$1,128,051
Board of Elections	495,324	109,931	0	$109,694	$50,000
Rhode Island Ethics Commission	-	-	-	$0	$0
Governor's Office	544,470	55,161	0	$132,605	$139,898
Commission for Human Rights	454,725	324,988	356,689	$161,769	$301,532
Public Utilities Commission	67,758	105,096	296,330	$296,330	$309,373
Rhode Island Commission on Women	-	-	-	$0	$0
Subtotal - General Government	**$123,050,912**	**$391,908,861**	**$265,681,177**	**$334,131,530**	**$180,340,027**
Human Services					
Office of Health & Human Services	2,989,140	1,254,175	2,873,533	$3,309,016	$6,250,134
Children, Youth, and Families	86,805,083	78,805,892	77,855,163	$72,879,472	$59,625,993
Elderly Affairs (2)	13,297,603	16,491,994	15,936,066	$21,743,018	$0
Health	75,887,711	88,783,805	63,259,111	$83,287,872	$59,124,539
Human Services (2)	1,167,517,155	1,364,253,707	1,556,245,695	$1,484,547,658	$1,419,613,547
Mental Health, Retardation, & Hospitals	273,867,202	287,059,335	259,918,758	$262,742,172	$225,489,947
Veterans Affairs	0	0	0	$0	$0
Governor's Commission on Disabilities	56,245	85,780	193,598	$198,495	$181,842
Commission On Deaf and Hard of Hearing	(3,900)	0	-	$0	$0
State Council on Developmental Disabilities	0	0	-	$0	$0
Office of the Child Advocate	10,487	45,904	45,805	$46,702	$49,048
Office of the Mental Health Advocate	-	-	-	$0	$0
Subtotal - Human Services	**$1,620,426,726**	**$1,836,780,592**	**$1,976,327,729**	**$1,928,754,405**	**$1,770,335,050**

Expenditures from Federal Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
Education					
Elementary and Secondary	212,971,419	259,815,919	239,980,896	$298,689,173	$238,146,015
Higher Education - Board of Governors	3,735,333	3,746,126	15,004,667	$32,657,457	$4,594,756
RI Council on the Arts	698,153	1,117,813	950,990	$950,569	$973,064
RI Atomic Energy Commission	51,548	130,200	300,159	$314,104	$324,104
Higher Education Assistance Authority	13,123,389	10,873,936	12,044,337	$13,182,313	$13,508,323
Historical Preservation and Heritage Comm.	509,473	589,499	835,804	$841,508	$846,195
Public Telecommunications Authority	-	-	-	$0	$0
Subtotal - Education	**$231,089,315**	**$276,273,493**	**$269,116,853**	**$346,635,124**	**$258,392,457**
Public Safety					
Attorney General	1,397,378	1,297,016	1,248,830	$2,000,143	$2,895,944
Corrections	22,288,289	2,106,693	2,794,860	$3,814,708	$2,914,545
Judicial	1,625,278	2,830,983	2,326,527	$3,542,233	$3,576,588
Military Staff	24,421,516	20,725,608	22,150,754	$55,402,213	$29,418,438
Public Safety (3)	7,925,797	18,591,398	7,131,554	$12,414,738	$7,647,988
Office Of Public Defender	285,303	111,215	430,140	$618,770	$576,361
Subtotal - Public Safety	**$57,943,561**	**$45,662,913**	**$36,082,665**	**$77,792,805**	**$47,029,864**
Natural Resources					
Environmental Management	19,660,143	18,437,828	35,386,175	$42,920,188	$38,356,542
Coastal Resources Management Council	1,384,339	1,806,719	2,095,196	$6,951,896	$2,038,461
Water Resources Board	(1,034)	0	-	$0	$0
Subtotal - Natural Resources	**$21,043,448**	**$20,244,547**	**$37,481,371**	**$49,872,084**	**$40,395,003**
Transportation					
Transportation	$217,263,313	$242,296,127	$318,808,127	$347,774,535	$309,995,579
Subtotal - Transportation	**$217,263,313**	**$242,296,127**	**$318,808,127**	**$347,774,535**	**$309,995,579**
Total	**$2,270,817,275**	**$2,813,166,533**	**$2,903,497,922**	**$3,084,960,483**	**$2,606,487,980**

(1) In FY 2010 Fire Code Board was moved to Department of Adminsitration. In FY 2012, the Sheriffs program was moved from Department of Administration to Department of Public Safety.

(2) The Department of Elderly Affairs was merged into the Department of Human Services in the FY 2012 Enacted Budget.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission and in FY 2012, the Sheriffs Program.

Expenditures from Restricted Receipts

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
General Government					
Administration (1)	$9,476,352	$19,964,401	$17,140,339	$25,689,655	$20,059,071
Business Regulation	1,274,994	1,235,042	1,743,383	$1,763,979	$1,767,447
Labor and Training	18,912,732	19,182,847	17,529,145	$18,004,845	$17,104,361
Revenue	4,479,106	4,001,548	824,191	$1,966,459	$1,861,496
Legislature	1,508,336	1,503,031	1,575,008	$1,575,314	$1,649,199
Lieutenant Governor	-	-	-	$0	$0
Secretary of State	428,119	459,582	494,567	$459,436	$496,548
General Treasurer	22,183,336	23,407,229	29,420,614	$25,653,498	$29,544,084
Board of Elections	-	-	-	$0	$0
Rhode Island Ethics Commission	-	-	-	$0	$0
Governor's Office	-	920,742	1,498,546	$719,684	$777,676
Commission for Human Rights	-	-	-	$0	$0
Public Utilities Commission	5,567,848	5,884,880	7,430,326	$7,418,690	$7,795,633
Rhode Island Commission on Women	-	-	-	$0	$0
Subtotal - General Government	**$63,830,823**	**$76,559,302**	**$77,656,119**	**$83,251,560**	**$81,055,515**
Human Services					
Office of Health & Human Services	652,107	582,225	874,013	$891,857	$904,712
Children, Youth, and Families	2,232,511	2,148,243	2,306,915	$2,485,137	$3,389,296
Elderly Affairs (2)	850,000	740,000	675,931	$1,145,091	$0
Health	19,955,653	17,590,794	25,082,953	$25,869,684	$26,757,854
Human Services (2)	5,923,903	8,158,484	9,446,201	$10,587,200	$14,089,597
Mental Health, Retardation, & Hospitals	4,695,837	7,747,477	10,688,634	$8,049,478	$7,997,979
Veterans Affairs	0	0	0	$0	$0
Governor's Commission on Disabilities	8,432	7,931	13,626	$9,108	$9,264
Commission On Deaf and Hard of Hearing	-	-	-	$0	$0
State Council on Developmental Disabilities	-	-	-	$0	$0
Office of the Child Advocate	-	-	-	$0	$0
Office of the Mental Health Advocate	-	-	-	$0	$0
Subtotal - Human Services	**$34,318,443**	**$36,975,154**	**$49,088,273**	**$49,037,555**	**$53,148,702**
Education					
Elementary and Secondary	6,511,895	15,794,969	23,930,750	$19,019,883	$26,334,421
Higher Education - Board of Governors	651,932	738,830	930,000	$930,000	$941,338
RI Council on the Arts	83,440	100,000	-	$0	$0
RI Atomic Energy Commission	-	-	-	$0	$0
Higher Education Assistance Authority	-	-	-	$0	$0
Historical Preservation and Heritage Comm.	270,170	54,837	479,450	$475,552	$478,181
Public Telecommunications Authority	-	-	-	$0	$0
Subtotal - Education	**$7,517,437**	**$16,688,636**	**$25,340,200**	**$20,425,435**	**$27,753,940**

Expenditures from Restricted Receipts

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
Public Safety					
Attorney General	843,800	1,051,750	1,202,659	$1,317,657	$1,122,235
Corrections	-	-	87,134	$124,774	$34,371
Judicial	8,796,528	8,843,617	9,628,214	$10,018,790	$10,198,363
Military Staff	99,797	94,563	842,475	$448,468	$609,311
Public Safety (3)	243,806	942,338	803,106	$502,583	$335,749
Office Of Public Defender	-	-	-	$0	$0
Subtotal - Public Safety	**$9,983,931**	**$10,932,268**	**$12,563,588**	**$12,412,272**	**$12,300,029**
Natural Resources					
Environmental Management	11,413,385	10,159,927	14,136,916	$14,860,427	$14,131,035
Coastal Resources Management Council	220,500	223,000	250,000	$250,000	$250,000
Water Resources Board	109,816	0	-	$0	$0
Subtotal - Natural Resources	**$11,743,701**	**$10,382,927**	**$14,386,916**	**$15,110,427**	**$14,381,035**
Transportation					
Transportation	370,418	757,110	1,000,000	$1,000,000	$1,000,000
Subtotal - Transportation	**$370,418**	**$757,110**	**$1,000,000**	**$1,000,000**	**$1,000,000**
Total	**$127,764,753**	**$152,295,397**	**$180,035,096**	**$181,237,249**	**$189,639,221**

(1) In FY 2010 Fire Code Board was moved to Department of Adminsitration. In FY 2012, the Sheriffs program was moved from Department of Administration to Department of Public Safety.

(2) The Department of Elderly Affairs was merged into the Department of Human Services in the FY 2012 Enacted Budget.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor’s Justice Commission and in FY 2012, the Sheriffs Program.

Expenditures from Other Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
General Government					
Administration (1)	$56,759,074	$61,170,627	$78,523,550	$69,548,535	$78,345,852
Business Regulation	-	-	-	$0	$0
Labor and Training	707,904,208	666,133,064	626,954,600	$673,733,743	$447,223,406
Revenue	189,839,846	231,073,323	197,737,371	$219,641,170	$219,567,938
Legislature	-	-	-	$0	$0
Lieutenant Governor	-	-	-	$0	$0
Secretary of State	-	-	-	$0	$0
General Treasurer	159,102	209,144	218,915	$242,569	$227,589
Board of Elections	-	-	-	$0	$0
Rhode Island Ethics Commission	-	-	-	$0	$0
Governor's Office	-	-	-	$0	$0
Commission for Human Rights	-	-	-	$0	$0
Public Utilities Commission	-	-	-	$0	$0
Rhode Island Commission on Women	-	-	-	$0	$0
Subtotal - General Government	**$954,662,230**	**$958,586,158**	**$903,434,436**	**$963,166,017**	**$745,364,785**
Human Services					
Office of Health & Human Services	-	-	-	$0	$0
Children, Youth, and Families	573,923	402,032	4,390,000	$1,981,815	$2,790,000
Elderly Affairs (2)	4,448,300	0	-	$0	$0
Health	110,103	63,391	179,841	$116,200	$63,400
Human Services (2)	32,500	4,752,781	4,285,000	$5,031,620	$4,417,279
Mental Health, Retardation, & Hospitals	3,968,413	3,458,107	12,458,691	$11,863,929	$23,384,832
Veterans Affairs	0	0	0	$0	$0
Governor's Commission on Disabilities	151,400	141,677	250,000	$250,000	$250,000
Commission On Deaf and Hard of Hearing	-	-	-	$0	$0
State Council on Developmental Disabilities	-	-	-	$0	$0
Office of the Child Advocate	-	-	-	$0	$0
Office of the Mental Health Advocate	-	-	-	$0	$0
Subtotal - Human Services	**$9,284,639**	**$8,817,988**	**$21,563,532**	**$19,243,564**	**$30,905,511**
Education					
Elementary and Secondary	9,479,492	1,416,437	8,752,682	$7,377,929	$6,326,315
Higher Education - Board of Governors	667,142,742	735,958,261	758,260,879	$799,919,901	$824,821,529
RI Council on the Arts	229,094	181,350	435,000	$435,000	$435,000
RI Atomic Energy Commission	217,291	242,484	316,410	$297,047	$307,830
Higher Education Assistance Authority	6,837,701	6,183,791	7,021,425	$7,020,659	$7,990,720
Historical Preservation and Heritage Comm.	-	-	-	$0	$75,000
Public Telecommunications Authority	716,944	607,236	636,750	$646,734	$683,212
Subtotal - Education	**$684,623,264**	**$744,589,559**	**$775,423,146**	**$815,697,270**	**$840,639,606**

Expenditures from Other Funds

	FY 2009 Actual	FY 2010 Actual	FY 2011 Enacted	FY 2011 Revised	FY 2012 Enacted
Public Safety					
Attorney General	220,879	369,577	200,000	$437,270	$250,000
Corrections	2,577,567	1,872,196	5,970,124	$11,613,129	$10,285,317
Judicial	1,704,165	1,385,679	850,000	$850,787	$1,100,000
Military Staff	840,007	715,225	862,500	$2,202,178	$1,620,563
Public Safety (3)	7,650,846	25,306,906	11,790,420	$11,661,347	$7,058,929
Office Of Public Defender	-	-	-	$0	$0
Subtotal - Public Safety	**$12,993,464**	**$29,649,583**	**$19,673,044**	**$26,764,711**	**$20,314,809**
Natural Resources					
Environmental Management	2,638,832	3,527,031	9,194,291	$9,391,191	$9,649,221
Coastal Resources Management Council	0	1,655,509	0	$0	$729,100
Water Resources Board	25,542	182,895	120,000	$531,178	$0
Subtotal - Natural Resources	**$2,664,374**	**$5,365,435**	**$9,314,291**	**$9,922,369**	**$10,378,321**
Transportation					
Transportation	140,734,821	132,887,980	109,085,639	$105,026,489	$115,991,354
Subtotal - Transportation	**$140,734,821**	**$132,887,980**	**$109,085,639**	**$105,026,489**	**$115,991,354**
Total	**$1,804,962,792**	**$1,879,896,703**	**$1,838,494,088**	**$1,939,820,420**	**$1,763,594,386**

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(2) The Department of Elderly Affairs was merged into the Department of Human Services in the FY 2012 Enacted Budget.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy, Capitol Police, and the Governor’s Justice Commission and in FY 2012, the Sheriffs Program.

Free Surplus

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

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

The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish five year forecasts of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that out year expenditures will exceed revenues, at times by a substantial amount. The State Budget Office's most recent projections for FY 2013 through FY 2016, which were based on the Governor's recommended budget and revenue forecasts from November 2010, forecasted deficits of $126.0 million for FY 2013, $199.3 million for FY 2014, $295.7 million for FY 2015 and $411.4 million for FY 2016. These estimates did not include the impact of changes in retirement contributions as a result of changes in the actuarial assumptions which occurred in the Spring of 2011. Based on the budget enacted for FY 2012 by the General Assembly, the House Fiscal Staff forecasts out year deficits of $142.4 in FY 2013, $182.7 in FY 2014, $240.7 in FY 2015 and $298.5 in FY 2016. These estimates take into account increased revenues resulting from the May Revenue Estimating Conference, and changes enacted by the General Assembly to revenues and expenditures and increased retirement contributions estimated as a result of changes in actuarial assumptions. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY 2002 and FY 2003 budgets incorporated the use of the proceeds from the securitization of the tobacco settlement payments due the State under the Master Settlement Agreement (MSA) entered into by the Attorney General in November 1998. The tobacco securitization proceeds included in the budget as enacted are based on the actual sale of the State's right to receive *all* of its tobacco settlement payments for the 2004–2043 period. The bonds were sold by the Tobacco Settlement Financing Corporation on June 27, 2002 in the amount of $685.4 million. The net proceeds of the sale, after funding the costs of issuance, capitalized interest, and the debt service reserve account, totaled $544.2 million.

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

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

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

The nation has been feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 62,000 Rhode Islanders unemployed as of May 2011. The jobless rate peaked at 12.7 percent in December 2009 and the State currently ranks third in the nation with a 10.9 percent rate of unemployment as of May 2011, compared to 9.1 percent nationally. The State has depleted the resources it set aside to pay unemployment benefits and is now borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Recent estimates, however, have shown a reversal in tax collections. Personal income taxes are estimated to be $1,003.6 million in FY 2011 and $1,010.0 million in FY 2012. Uncertainty about the economic future and the contraction of the State's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. Sales tax receipts are estimated to be $810.4 million in FY 2011 and $846.5 million in FY 2012, based on the budget as enacted by the General Assembly. The business corporations tax, which peaked in FY 2006 at $165.1 million are estimated at $95.1 million in FY 2011 and $121.2 million in FY 2012. Rhode Island's estimated general revenue receipts in FY 2011 and FY 2012 are estimated to be $3.091 billion and $3.176 billion, respectively.

FY 2012 Enacted Budget

At the time of submission of the Governor's proposed budget for FY 2012, the FY 2012 budget shortfall was projected to be $331.0 million. A major portion of the increased in projected spending was due to the anticipated end of enhanced FMAP for Medicaid expenditures on June 30, 2011. This translates into additional expenditures of approximately $215.4 million. The enacted budget for FY 2012 resolved this deficit through a combination of expenditure modifications, increased revenues and one-time revenue or expenditure changes. Major reductions include $60.5 million in Human Services programs, including service delivery system changes, restructuring of rates and consolidation of publically managed facilities. The enacted budget also included a reduction in general revenue funding for local education aid based on the availability of federal Education Jobs funding of approximately $32.0 million. Proposed revenue changes are described in detail above under the Revenue section entitled "Revenue Estimates".

In the past, the State has used a number of one-time measures, such as the use of one-time federal funds and reserves, which will not be available to address future budget needs. As a result, significant budget deficits are expected for the years following FY 2012, although lower than projected in prior years, and additional adjustments to both revenues and expenditures will likely be necessary for the adoption of balanced budgets for the fiscal years following FY 2012.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2009 through 2012. FY 2009 and FY 2010 data is derived from the State's Comprehensive Annual Financial Reports prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2011 Enacted Budget reflects the budget enacted by the General Assembly in June 2010. The FY 2011 Revised Budget reflects the FY 2011 supplemental budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011. The FY 2012 Budget reflects the revenues adopted by the May 2011 Revenue Estimating Conference, and expenditures and adjustments to revenues contained in the FY 2012 Budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011.

The enacted budget results in revenues of $3.091 billion in FY 2011 and $3.176 billion in FY 2012 and expenditures of $2.97 billion in FY 2011 and $3.143 billion in FY 2012. The free surplus for FY 2011 would be $57.2 million and $168,335 in FY 2012.

FY 2012 General Revenue Budget Surplus

	FY2009 Audited	FY2010 Audited [1]	FY2011 Enacted [2]	FY2011 Revised [3]	FY 2012 Enacted [4]
Surplus					
Opening Surplus	($42,950,480)	($62,286,103)	$14,217	$17,889,521	$57,202,735
Reappropriated Surplus	1,738,518	998,143	-	3,364,847	-
Subtotal	**($41,211,962)**	**($61,287,960)**	**$14,217**	**$21,254,368**	**$57,202,735**
General Taxes	2,338,696,429	2,320,872,610	2,317,150,000	2,317,150,000	2,350,691,899
Revenue estimators' revision - Nov				21,850,000	29,558,101
Revenue estimators' revision - May				44,600,000	57,050,000
Changes to the Adopted Estimates				-	20,004,753
Subtotal	**$2,338,696,429**	**$2,320,872,610**	**$2,317,150,000**	**$2,383,600,000**	**2,457,304,753**
Departmental Revenues	318,804,246	333,128,045	345,226,745	345,226,745	351,107,232
Revenue estimators' revision - Nov		-		(10,526,745)	(11,990,688)
Revenue estimators' revision - May		-		(600,000)	(1,900,000)
Changes to the Adopted Estimates				-	2,175,350
Subtotal	**$318,804,246**	**$333,128,045**	**$345,226,745**	**$334,100,000**	**339,391,894**
Other Sources					
Gas Tax Transfers	4,327,710	24,134	-	-	-
Revenue estimators' revision		-	-	-	-
Changes to the Adopted Estimates		-	-	-	8,617,371
Other Miscellaneous	17,813,994	12,466,517	5,331,000	5,331,000	3,924,759
Revenue estimators' revision - Nov		-		5,524,000	(134,759)
Revenue estimators' revision - May		-		2,275,000	35,000
Changes to the Adopted Estimates				16,107	(394,759)
Lottery	337,515,478	344,672,747	346,138,520	346,138,520	352,835,021
Revenue estimators' revision - Nov		-		1,361,480	(1,335,021)
Revenue estimators' revision - May		-		5,700,000	9,700,000
Changes to the Adopted Estimates				(163,000)	(147,897)
Unclaimed Property	8,044,126	5,867,150	6,000,000	6,000,000	5,603,000
Revenue estimators' revision - Nov		-		(700,000)	(403,000)
Revenue estimators' revision - May				1,800,000	1,000,000
Subtotal	**$367,701,308**	**$363,030,548**	**$357,469,520**	**373,283,107**	**379,299,715**
Total Revenues	**$3,025,201,983**	**$3,017,031,203**	**$3,019,846,265**	**$3,090,983,107**	**$3,175,996,362**
Transfer to Budget Reserve	**(66,093,533)**	**(70,913,882)**	**(78,516,373)**	**(80,830,688)**	**(90,529,575)**
Total Available	**$2,917,896,488**	**$2,884,829,360**	**$2,941,344,109**	**$3,031,406,787**	**$3,142,669,523**
Actual/Enacted Expenditures	**$3,001,184,448**	**$2,863,574,992**	**$2,942,118,704**	**$2,942,118,704**	**$3,142,501,188**
Reappropriations		-	-	3,364,847	
Caseload Conference Changes				(9,901,634)	
FMAP Makeup				37,289,357	
Other Changes in Expenditures				1,332,778	
Total Expenditures	**$3,001,184,448**	**$2,863,574,992**	**$2,942,118,704**	**$2,974,204,052**	**$3,142,501,188**
Free Surplus	**($62,286,103)**	**$17,889,521**	**($774,595)**	**$57,202,735**	**$168,335**
Transfer from Budget Reserve	**$22,000,000**				
Reappropriations	**(998,144)**	**(3,364,847)**	-	-	
Total Ending Balances	**($83,287,960)**	**$21,254,368**	**($774,595)**	**$57,202,735**	**$168,335**
Budget Reserve and Cash Stabilization Account	**$80,144,551**	**$112,280,314**	**$126,834,140**	**$130,572,650**	**$148,728,644**

[1] Derived from the State Controller's final closing report for FY 2010, dated January 13, 2011, reflecting a surplus of $17,889,522.

[2] Reflects the FY 2011 budget enacted by the General Assembly in June 2010, reflecting the revenue estimates adopted at the May 2010 Revenue Estimating Conference and further modified by legislative changes in the enacted budget. Legislation approved separate from the budget, which impacted VLT revenues, reduced lottery revenues by $800,280.

[3] Reflects the FY 2011 supplemental budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011.

[4] Reflects the FY 2012 budget enacted by the General Assembly and signed into law by the Governor on June 30, 2011.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years, the State has sought to enhance the timeliness of completion regarding the Comprehensive Annual Financial Report (CAFR). As a result, the CAFR and related annual audit for fiscal year ending June 30, 2010 were completed by December 30, 2010.

As part of the auditing process for the fiscal year ending June 30, 2010, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the State's Auditor General's report entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General's website at www.oag.ri.org/reports.html. The State has dedicated substantial resources to resolving these issues and continues to attempt to address deficiencies as they are raised.

STATE INDEBTEDNESS

Authorization and Debt Limits

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

Public Finance Management Board

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

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

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

According to the most recent Capital Budget, the projected ratio of debt service to general revenues will exceed the recommended guideline of 7.5 percent in FY 2013 and FY 2014. It is projected to range between 7.01

percent and 7.81 percent over the five year planning horizon. This is due to two factors. The state's general revenue receipts have dropped significantly over the last two years, and the out-year forecast reflects a slow recovery. The State will continue to take appropriate actions to address debt service obligations, such as refundings, and will closely monitor the growth of debt service expenditures.

Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of $4.0 million in FY 1999, and $865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net $5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million. As of June 30, 2011, the balance of Sinking Fund Commission funds was $0.

Tax Anticipation Notes

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

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

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

Fiscal Year	Maximum Principal Amount Outstanding	Percent of Prior Year's Tax Receipts
1990	$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4
2010	350,000,000	14.6
2011	350,000,000	15.2
2012	200,000,000 *	8.4

*Estimated issuance; General Assembly authorized issuance of up to $350.0 million.

Net Tax Supported State Debt

The State has multiple categories of State debt, including without limitation, direct debt, guaranteed debt, and other obligations subject to annual appropriation. The following table shows these obligations. The gross debt totals are adjusted for those obligations covered by revenue streams of the quasi-independent agencies. The intent of this presentation is to be consistent with rating agencies' practices.

As of July 1, 2011, authorized but unissued direct debt totaled $261,991,822 and there was no authorized but unissued guaranteed debt. However, see the discussion on guaranteed debt under the heading "State Indebtedness – Authorized but Unissued Direct Debt" below.

Net Tax Supported Debt Ratios
(in thousands)

	Debt Obligations June 30,2007	Debt Obligations June 30,2008	Debt Obligations June 30,2009	Debt Obligations June 30,2010	Debt Obligations June 30,2011
Direct Debt:					
Variable Rate Bonds	16,365	14,165	-	-	-
Various purpose bonds	897,119	982,923	1,036,189	1,118,030	1,049,400
Subtotal	913,484	997,088	1,036,189	1,118,030	1,049,400
Other Debt Subject to Annual Appropriation:					
RI Refunding Bond Authority-Public Buildings Lease Rental Bonds	42,710	24,235	6,040	-	-
Convention Center Authority	279,935	270,960	275,810	268,280	259,620
Economic Development Corporation-Transportation(motor fuel)	76,290	72,560	81,125	77,645	74,060
Certificates of Participation -Equipment/Vehicle Leases	19,790	14,395	9,400	5,425	3,505
Certificates of Participation - Intake Center	8,160	5,535	2,775	-	-
Certificates of Participation - Attorney General	2,575	2,230	2,030	1,745	1,450
Certificates of Participation- DLT Howard Complex	15,970	13,375	12,630	11,200	9,695
Certificates of Participation-Shepard's Building(originally EDC)	22,135	20,980	19,155	17,245	15,220
Certificates of Participation-Howard Steam Plant	22,360	22,160	21,035	19,650	18,220
Certificates of Participation-Kent County Courthouse	54,405	52,075	49,690	47,240	44,715
Certificates of Participation-Traffic Tribunal Court Complex	20,765	19,940	19,090	18,215	17,310
Certificates of Participation-Training School	50,205	48,370	46,470	44,500	42,450
Certificates of Participation-Information Technology	23,490	21,000	30,500	25,935	21,390
Certificates of Participation-School for the Deaf	-	-	30,425	29,500	28,470
Loan Agreement-Historic Structures Tax Credit Fund	-	-	150,000	135,195	120,820
Certificates of Participation-DOA Energy Conservation	6,000	6,000	5,830	5,635	5,415
Energy Conservation - University of RI	6,735	6,735	18,090	17,385	16,205
Certificates of Participation-Divison of Motor Vehicle System	-	-	-	11,000	9,615
RIHMFC Neighborhood Opportunities Housing Program	15,502	18,152	13,179	8,450	3,485
Economic Development Corporation-Masonic Temple	14,280	9,775	5,030	-	-
Economic Development Corporation-URI Power Plant	12,194	11,494	10,759	9,995	9,195
Economic Development Corporation- McCoy Stadium	4,275	3,265	2,220	1,130	-
Subtotal	697,776	643,236	811,283	755,370	700,840
Performance Based Agreements					
Economic Development Corporation- Fidelity Building	20,402	19,592	18,708	17,749	16,710
Economic Development Corporation- Fidelity Building II	10,000	9,766	9,514	9,244	8,954
Economic Development Corporation- Fleet Bank	9,630	9,415	9,180	8,925	8,655
Subtotal	40,032	38,772	37,402	35,919	34,319
Gross Debt	1,651,292	1,679,096	1,884,874	1,909,319	1,784,559
Less: Adjustments for Agency Payments	(28,848)	(27,766)	(26,617)	(25,406)	(24,130)
Net Tax Supported Debt	**$1,622,444**	**$1,651,331**	**$1,858,257**	**$1,883,912**	**$1,760,429**
Debt Ratios					
Personal Income	**$41,893,500**	**$43,455,000**	**$43,635,250**	**$43,854,750**	**$44,350,117**
Debt as a percent of Personal Income	**3.87%**	**3.80%**	**4.26%**	**4.30%**	**3.97%**

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 July 1, 2011, the State had $1.049 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2012 through FY 2030.

Debt Service Schedule for General Obligation Debt Issued for FY 2012-2030*

Fiscal Year	Principal	Interest	Total Debt Service
2012	73,230,000	49,129,551	122,359,551
2013	96,150,000	45,188,490	141,338,490
2014	76,000,000	41,146,642	117,146,642
2015	83,230,000	37,478,203	120,708,203
2016	75,440,000	33,733,226	109,173,226
2017	79,670,000	29,986,276	109,656,276
2018	68,350,000	26,435,467	94,785,467
2019	64,500,000	23,238,657	87,738,657
2020	58,705,000	20,443,559	79,148,559
2021	61,995,000	17,787,721	79,782,721
2022	53,295,000	15,124,134	68,419,134
2023	54,400,000	12,594,868	66,994,868
2024	45,140,000	10,124,720	55,264,720
2025	39,475,000	7,841,786	47,316,786
2026	41,285,000	5,854,094	47,139,094
2027	27,555,000	4,070,407	31,625,407
2028	27,210,000	2,623,276	29,833,276
2029	11,670,000	1,386,524	13,056,524
2030	12,100,000	705,632	12,805,632
Total	$1,049,400,000	$384,893,213	$1,434,293,213

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* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of July 1, 2011. Excludes guaranteed and contingent debt.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of July 1, 2011 which have been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of July 1, 2011*
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
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	4,000,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	5,020,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	21,885,000
Higher Education	Ch. 246-P.L. of 2006	31,500,000
Transportation	Ch. 246-P.L. of 2006	4,507,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	2,500,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Transportation	Ch.100-P.L.of 2008	7,215,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	2,500,000
Higher Education	Ch. 23-P.L. of 2010	78,000,000
Open Space and Recreational Development	Ch 23-P.L. of 2010	14,700,000
Transportation	Ch 22-P.L. of 2010	84,700,000
Total Direct Debt		**$261,991,822**

Source: State Budget Office

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

The balance of the authorization for Chapter 65 Public Laws of 2002 for the State Police Headquarters was extinguished effective November 5, 2009. The State Police project was funded through other means.

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of July 1, 2011, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $96,276,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

Obligations Carrying Moral Obligation of State.

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

Other Obligations Subject to Annual Appropriation.

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

In December 1995, the State entered into a lease agreement with a financial institution which issued $4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2011, $1,450,000 of these certificates were outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2011, $9,695,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 in certificates of participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2011, $15,220,000 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, 2011, $0 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 in certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2011, $3,505,000 in certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2011, there was $18,220,000 in certificates outstanding.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of $13,060,000 of debt to provide funds for the relocation of the Traveler's Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional $2,250,000 for the Traveler's Aid project through the loan agreement. In 2006, the State financed $5.0 million for related affordable housing projects. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects. As of June 30, 2011, there was $3,485,000 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, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2011, $74,060,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2011, there was $44,715,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2011, there was $17,310,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. As of June 30, 2011, there was $42,450,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. As of June 30, 2011, there was $21,390,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2011, there was $21,620,000 outstanding.

In 2009, the State entered into a lease agreement with a financial institution that issued $30,425,000 of certificates of participation for the construction of a new School for the Deaf. As of June 30, 2011, there was $28,470,000 outstanding.

In June 2009, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of Economic Development Corporation Revenue Bonds in the amount of up to $356,200,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2011, there was $120,820,000 of such Revenue Bonds outstanding.

In May 2010, the State entered into a loan agreement with the Bank of America in the amount of $11.0 million to provide funds for the replacement of the Registry of Motor Vehicle computer system. The debt service on this loan will be funded from a $1.50 surcharge on all Registry transactions. As of June 30, 2011, there was $9,615,000 of this loan outstanding.

Obligations for Which Appropriation Has Not Been Made

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

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of July 1, 2011, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$84,700,000
Economic Development Corporation – Historic Structures Tax Credit Fund	$206,200,000
Economic Development Corporation – Fund to Grow Rhode Island Companies	$50,000,000
Economic Development Corporation – 195 Land Sales	$42,000,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$382,900,000

The State plans to issue approximately $37.5 million of Certificates of Participation to fund Energy Conservation projects in FY 2012. In addition, it is expected that the Economic Development Corporation will issue approximately an additional $40.0 million of bonds to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved for quasi-public agencies and the Board of Governors for Higher Education, which will be funded from non-general revenue sources.

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

Performance-based obligations of the Economic Development Corporation.

In May 1996 the Economic Development Corporation issued $25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2011 $25.664 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.5 million in 2012, and would reach $2.5 million for Phase I and $954,000 for Phase II annually, if maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2011, $8,655,000 of Fleet bonds were outstanding. Under the lease agreement with Fleet, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. The company has never reported jobs levels in excess of the base number of jobs (approx. 3,900). Job rent credits, if maximized are estimated to result in a State obligation of approximately $945,000 per year.

Borrowing for the Employment Security Fund

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

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

The balance in the Rhode Island Employment Security Fund was ($126.9) million as of June 30, 2011. This was an increase of $53.0 million from June 2010. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government $70.3 in FY 2009, $155.2 million in FY 2010 and $89.9 million in FY 2011. Since May 1, 2011 the Department has repaid $93.0 million of its federal loans through the automatic application of UI taxes received to our outstanding federal loans in order to reduce the interest due on September 30, 2011. The Department projects that it will need to continue to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2012.

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

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2009. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) minus employee benefits and loan repayments (disbursements) less any outstanding loan balance.

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-120.9	127.5	-0-
2010	-183.3	98.0	-0-
2011*	-126.9	89.9	93.03

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section

* Unaudited – as of June 30

1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State also borrowed $98.0 million in 2010 and an additional $89.9 million in 2011. It is expected that borrowing will continue in FY 2012, and could equal $224.4 million by the end of December 2011. Total borrowing is expected to peak at $303.6 million at the end of April 2012.

Under ARRA, the loans from the federal account did not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by September 30th of each year. The Department estimates that its September 30, 2011 federal interest payment will be approximately $7.3 million. Failure to pay this interest by the due date would result in a loss of state employer FUTA tax credits and the loss of the State's UI Administrative grant. The interest due on federal loans cannot be paid out of the State's UI Trust fund or by UI Grant funds. As a result, the General Assembly passed legislation that deleted a 0.3% UI surtax scheduled to take effect on January 1, 2011 and added 0.3% to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans. If the State is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a federal unemployment tax (FUTA) of 6.2% to the federal government less a credit of 5.4% when state UI law is in conformity with federal law. The net federal tax is, therefore, 0.8%. However, after two years of outstanding loans, federal law requires cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit would be applied against the State's federal loan balance. Under current law, Rhode Island employers will be subject to the first 0.3% tax credit reduction on 2011 taxable wages with payment due by January 31, 2012 if its federal loans are not repaid by November 10, 2011.

Article 22 of the FY 2011 Appropriations Act expanded benefit eligibility and allowances under the Unemployment Insurance program. This article was effective January 1, 2011 and applies to all new claims filed from that day forward, but not to existing claims. Implementing these changes allowed the state to receive $15.6 million in Unemployment Insurance Modernization funding in 2010 made available through the American Recovery and Reinvestment Act of 2009.

Article 4 of the FY 2012 Appropriations Act implements adjustments to the Unemployment Insurance taxable wage base provisions beginning on January 1, 2012 and adjustments to Unemployment Insurance benefit provisions beginning on July 1, 2012. On the employer tax side, the taxable wage base will go from a fixed amount based on the Employment Security Fund reserve to a variable amount equal to a percentage of Rhode Island's average annual wage. In 2012, the percentage would be equal to 46.5% of the state's average annual wage. The taxable wage base for employers with certain negative reserve account percentages will be set at $1,500 above the level set for all other employers.

On the benefits side, the maximum weekly benefit amount formula percentage will be adjusted effective July 1, 2012. It is currently capped at 67% of the statewide average weekly wage. This article reduces the percentage to 57.5% of the statewide average weekly wage, but the maximum would not be reduced below the maximum Weekly Benefit Amount level of $566 that took effect on July 1, 2011.

For individual workers, the total amount of benefits payable during a benefit year is reduced from a maximum of 36% of total wages during his or her base period, to 33% on or after July 1, 2012.

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

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24 of the General Laws, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance of the Series 1997 Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of the Authority's revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $21,445,000 at June 30, 2010.

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

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

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

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. However, as of June 30, 2010, the Commission has outstanding long-term debt (revenue bonds) of $155,128,722 and outstanding long-term loans payable to the Rhode Island Clean Water Finance Agency of $255,471,628.

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority was created in 1987, pursuant to legislation under Chapter 34, title 42 of the General Laws and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to $80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default. Effective July 1, 2008, the General Assembly reduced the authorization to $20,000,000, but the authorization was increased by the General Assembly during the 2010 Session to $60,000,000.

As of June 30, 2010, the Authority had outstanding mortgage agreements and other commitments for $18,143,189 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, 2010, the Fund had a balance of $3,657,159 of which $3,123,420 was liquid. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. In November 1991 the Authority sold $225 million in bonds to finance the construction of the Rhode Island Convention Center and in July 1993 the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C Bonds. The 1993 Series C Bonds were retired in FY08. During FY09, the Authority refunded the 2001 Series A, thereby converting the variable risk of this series with a fixed rate. This series was replaced by 2009 Series A and B. The 2009 Series B issue is federally taxable.

As of June 30, 2011, the Authority had $259,620,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 1993 Series B - $27,750,000
- 2003 Series A - $41,315,000
- 2005 Series A - $33,620,000
- 2006 Series A - $86,470,000
- 2009 Series A - $69,980,000
- 2009 Series B - $ 485,000

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

Pursuant to a Lease and Agreement dated as of November 1, 1991, between the Authority, as lessor and the State, as lessee, the Authority leased the Convention Center facilities to the State. Pursuant to a Lease and Agreement dated as of November 30, 2005 between the Authority, as lessor, and the State, as lessee, the Authority leased the Dunkin Donuts Center to the State. The State is obligated to make lease payments in an amount sufficient to pay the operating expenditures of the Authority and the corresponding debt service on its obligations including, but not limited to, the bonds. The lease payments are subject to annual appropriation by the General Assembly.

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A, in the aggregate principal amount of $19,945,000. The bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. The outstanding balance at June 30, 2010 totals $13,990,000.

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

The General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a $6,000,000 subsidy in FY 1994. However, in years when the Corporation took in excess volumes of solid waste that generated surplus cash, the General Assembly required the Corporation to transfer those surpluses to the State’s General Fund.

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree required the establishment of a trust in the amount of $27,000,000 to fund remedial actions; the EPA approved the Central Landfill Remediation Trust Fund Agreement on August 22, 1996. The majority of these remedial actions, including the construction of a landfill cap and the installation of the groundwater pump and treat system, have been completed, paid for and approved by the EPA. Based on current engineering estimates the annual operation and maintenance costs required under the Consent decree for the next five years are included the Corporation’s closure / post-closure liability. The EPA reviews the need to continue these activities every five years.

While the cost of future remedial actions may potentially increase based on EPA’s review and evaluation, the Corporation projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside of the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

The Corporation has established trust funds, in accordance with Rhode Island Department of Environmental Management (RIDEM) requirements for a municipal solid waste landfill, for the closure and post closure care costs related to all currently operating and closed phases of the landfill. At June 30, 2010, the Corporation has approximately $82,375,079 in trust funds, which includes the remaining balance of the Superfund remediation trust funds, to meet the financial requirements of closure and post closure care costs related to Phases I, II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation’s total estimate of future landfill closure and post-closure costs for existing phases is approximately $107,000,000 as of June 30, 2010. The RIDEM has approved the Corporation’s application for licensure of Phase VI. Based on current cost estimates the Corporation expects to record an additional $82,000,000 of closure and post-closure costs over the anticipated life of Phase VI which will be activated in 2014.

As a result of some ethical concerns and suspected misuse of Corporation funds raised by the Corporation’s Executive Director, a preliminary forensic audit was ordered by the Governor in January 2008. The findings of that audit completed in March 2008 confirmed these concerns and the Governor then ordered a full forensic audit. On September 22, 2009 the Bureau of Audits released the results of its examination of the Corporation. Although none of the findings are expected to have a significant impact on the Corporation’s financial position, the audit did reveal $75,000,000 of mismanagement losses during the eight year period examined. In 2010, the Agency began the legal process to collect against insurance policies that covered against fiduciary losses. The Agency reached a settlement in June 2010 with one of the insurers for $5,000,000. Additional recoveries potentially in excess of $1million are considered possible.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2010, the Agency has issued bonds in the aggregate amount of $935,890,000 to fund $1,053,860,242 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, 2010 is $473,385,000 in the clean water state revolving fund (CWSRF wastewater projects), $59,230,000 for three conduit financings and $120,095,000 in the drinking water state revolving fund. Also, in years 1997 through 2010, the Agency made a total of $42,130,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $28,213,037 in direct loans out of the Drinking Water State Revolving Fund and $58,395,000 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 in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 257 buses and 135 vans carrying approximately 18.0 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from time to time with the most recent increase being from $1.50 to $1.75 to $2.00 in September 2010. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2010, audited results of operations reveal that State-operating assistance to the Authority totaled $41,788,014, operating revenues totaled $27,696,999, and other revenues totaled $25,278,465. In reaction to a projected $4.6 million deficit in the fiscal year 2012, the Authority announced in June 2011 that it plans to unveil a proposal to cut the State's bus service by 10 percent. Authority officials expect recommendations regarding any service cuts to be made in August 2011.

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

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

As of June 30, 2010, the Corporation had revenue bonds outstanding of $1,147,472,153 including conduit debt of $93,972,868 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

In February 1993, the Corporation issued $30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Corporation repaid the debt to the letter of credit bank and receivership costs by utilizing funds on hand in FY 2000, the proceeds from the sale of the facility, and state appropriations authorized during the 1999 General Assembly. The state appropriations, disbursed in the amount of $5.8 million, were partially reimbursed as a result of additional receivership proceedings, resulting in net state support of $5.4 million. As of June 30, 1999, the balance outstanding was $28,675,000. As of January 1, 2000, there were no bonds outstanding for the original Alpha Beta debt. A new series of bonds in the amount of $25.0 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Corporation's capital reserve fund. On November 17, 2000, Dow Chemical Corp. assumed the bonds from Collaborative Smithfield Corp. On April 26, 2006, the total outstanding bonds were defeased.

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. 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 2010, the State's expenditure for this purpose was $2,532,526, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2010, the outstanding balance was $17,749,285.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2010, the outstanding balance was $9,000,000.

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, to be utilized by Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2010, the outstanding balance was $8,925,000.

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, 2010, the outstanding balance was $1,130,000.

In May 2000, the Corporation issued revenue note obligations in the amount of $40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of $3.68 million in years 1-5, and $3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient. As of June 30, 2011, there were $26,735,000 of bonds outstanding.

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

Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2010, $77,645,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2010 there was $400,515,000 outstanding which were supported by federal revenues.

In June 2009, the Corporation issued revenue bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits from time to time presented by taxpayers. These revenue bonds are supported by a payment agreement with the State subject to annual appropriation. As of June 30, 2010, there was $135,195,000 of such revenue bonds outstanding.

In November, 2010 the Corporation issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, and are to provide funding for relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. The payments of the bonds are secured, in part, by the guaranty of the Economic Development Corporation. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the Economic Development Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the Economic Development Corporation has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. The General Assembly may but is not required to appropriate such amounts.

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

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

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

RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes. RIAC does not have the authority to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T. F. Green Airport, which is Rhode Island's only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2010, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and four commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

Airport Use and Lease Agreements

Effective July 1, 2010 RIAC has entered into Airline Operating and Terminal Building Leases (Airline Agreements) with the following Signatory Airlines:

- Delta Airlines
- Southwest Airlines
- United Airlines
- US Airways
- FedEx
- UPS

The term of the Airline Agreements extend through June 30, 2015, and establish procedures for the annual adjustment of signatory airline terminal rates, apron fees and aircraft landing fees collected for the use and occupancy of terminal and airfield facilities. In addition, RIAC enters into Non-Signatory Airline Operating Agreements with certain other airlines for the use and occupancy of the terminal and airfield facilities.

Historical Enplanement Data

T.F. Green Airport was ranked as the 61st busiest airport in the country for federal fiscal year 2008 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, FAA. This compares with rankings of 60th busiest in federal fiscal years 2007 and 2006, 57th busiest in federal fiscal year 2005, and 58th busiest in federal fiscal year 2004.

Actual enplaned passengers for fiscal year 2010 were 236,556 below 2009, resulting in a decrease of 10.5%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn.

General Aviation Airports

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract 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). RIAC entered into a management agreement with AFCO AvPORTS Management, LLC to manage and operate the five General Aviation Airports for a two year period between July 1, 2011 and June 30, 2013. Each of these airports is briefly described below.

North Central Airport

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

Quonset Airport

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

Westerly Airport

This airport is located in Westerly, approximately thirty-five miles southwest of the Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 9,500 commuter passengers annually.

Newport Airport

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

Block Island Airport

Situated on Block Island just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 8,800 commuter passengers annually.

Long-Term Debt Administration - General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2010 and 2009 was $8.26 million and $10.11 million, respectively.

In 1994, RIAC issued $30 million Series A General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding as of June 30, 2010 and 2009 was $ 5.225 and $6.07 million respectively.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2010 and 2009 was $32.06 million and $33.605 million respectively.
In 2000, RIAC issued $8.38 million Series A and $42.165 million Series B General Airport Revenue Bonds dated May 11, 2000, maturing annually through 2028 with interest coupons ranging from 5.51% to 6.5%. The balance outstanding as of June 30, 2010 and 2009 was $2.745 million and $4.005 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 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2010 and 2009 was $17.47 million and $20.6 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2010 and 2009 was $49.07 million and $49.155 million, respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B General Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2010 and 2009 was $113.46 million and $114.66 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B General Airport Revenue Bonds dated May 30, 2008 maturing annually through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2010 and June 30, 2009 was $50.88 million for both years.

Long-Term Debt Administration-Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.765 million as of June 30, 2010 and 2009. The principal amount of redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

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

As part of the financing for the Intermodal Facility Project, RIAC and the EDC secured additional funds under the United States Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) 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 Customer Facility Charges 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, 2010 and June 30, 2009 approximately $5.108 million and $83 thousand, respectively had been drawn on the TIFIA loan.

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

Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2010, the Corporation had an outstanding principal balance of conduit debt of $95,355,863. 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 $18,143,189 as of June 30, 2010.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2010 was $1,717,368,875 consisting of $1,607,265,875 of long-term bonds and $110,103,000 of short-term or convertible-option bonds. Included in the total outstanding is $267,259,100 in bonds, which are secured in part by capital reserve funds which have aggregated to $40,948,889 on June 30, 2010. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of April 30, 2011, the Authority held $629,736,415 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on April 30, 2011, $218,663,994 in Rhode Island Family Education Loans and $196,431,431 in College Bound Loans. As of April 30, 2011, the Authority had $675,370,000 of tax-exempt and taxable bonds outstanding.

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

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054).

On 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, 2010 was $4,905,000.

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

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 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; to assist local educational authorities in the State in financing public school projects; 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, 2010, the Corporation had $2,744,708,841 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 moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company and (ii) the Consent Decree and Final Judgment of the Rhode Island Superior Court for Providence County dated December 17, 1998, as the same has been and may be corrected, amended or modified, in the class action styled State of Rhode Island v. American Tobacco, Inc., et al. (Docket No. 97-3058), including without limitation, the rights of the State to receive the moneys due to it thereunder.

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts" for the years 2004-2043. As of June 30, 2010, the TSFC had $610,725,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional $197.0 million of its TSAC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $807,730,742 of principal outstanding, or $845,100,532 including accreted interest at June 30, 2010.

EMPLOYEE RELATIONS

Under State law, all State employees, with certain exceptions, have the right to organize, to designate representatives for the purpose of collective bargaining and to negotiate with the Governor or his designee on matters pertaining to wages, hours and other conditions of employment, except the State employees' retirement system. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to the Director of Labor & Training for mediation and conciliation to assist in a voluntary resolution of impasses. If impasses are not resolved, the Conciliator makes written findings of fact and recommendations with a view toward the voluntary settlement of unresolved issues. If mediation and conciliation fail or are not requested, any and all unresolved issues are submitted to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only.

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

As of June 20, 2011 the State had 14,849.6 paid employees. This equates to approximately 13,728.2 full-time equivalent positions. Of this amount, 11,257 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,824 employees, or 34.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (820 employees); the Rhode Island Brotherhood of Correctional Officers (1,042 employees); the American Association of University Professors (676 employees) to name a few. In addition, there are 3,700 non-union employees. Contracts with all but two of the collective bargaining units expire on or prior to June 30, 2012. The State and the Rhode Island Brotherhood of Correctional Officers utilized the interest arbitration process to determine the collective bargaining agreements for 2006 through 2009 and 2009 through 2012. The interest arbitration panel issued their awards on March 31, 2010. The parties are in the process of implementing these awards. The State Police union recently ratified a new contract for the period of May 2010 through April 2013.

As part of the FY 2010 budget, and to continue the initiatives begun in the FY 2009 Budget, the Governor agreed to, and the General Assembly enacted, several measures designed to reduce the overall cost of the workforce. The FY 2010 Revised Budget includes a reduction of 522.2 FTE positions from the enacted level of 14,863.0, based on a 50 percent reduction in current agency vacancies. The FY 2010 Revised Budget also included $170.6 million in salary cost savings resulting from the inclusion of eight pay reduction days, following negotiations with the unions. The FY 2011 Enacted Budget provided that state employee full time equivalent positions be increased from the FY 2010 revised enacted level of 14,340.8 to 14,827.6 in FY 2011. The FY 2011 Enacted Budget also included $8.99 million in salary cost savings resulting from the inclusion of four pay reduction days, as well as $9.6 million in savings resulting from a postponement of the July 1, 2010 cost of living adjustment to January 1, 2011. Savings were also included in medical benefits (a 10.6 percent reduction in working rates in FY 2010, and a 10.0 percent reduction in FY 2011), and in assessed fringe benefits (a $1.6 million reduction due to a revised estimate for unused leave, unemployment, and worker's compensation). The FY 2011 Enacted Budget also included new provisions in the pension system for state employees, teachers, and judges who were not eligible for retirement in September 30, 2009 and are not eligible to retire as of the enactment of the proposal. These provisions limited cost of living adjustments to the first $35,000 of the retirement allowance, indexed to inflation but capped at 3 percent, beginning in the third anniversary of the date of retirement or age 65, whichever is later. Savings from this action are estimated at $16.0 million in general revenue expenditure, $5.7 million from state employees and judges, and $10.3 million from teachers ($4.2 million from the state share and $6.1 million from the municipalities). As a result of changes that were enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there were a significant number of state employees who retired.

As part of the FY 2012 Enacted Budget, the General Assembly imposed a moratorium on the longevity pay program for state employees. This program provides employees increases in pay based on years of services as follows: 5 percent after 5 years, 10 percent after 11 years, 15 percent after 15 years, 17.5 percent after 20 years and 20 percent after 25 years. The moratorium is effective July 1, 2011 for non-union employees and as of the end of current collective bargaining agreements that include longevity pay provisions for unionized employees, most of which expire June 30, 2012. Employees will maintain any longevity pay they have earned as of these dates, but will not be eligible to received additional increments. There were no savings assumed in the FY 2012 Enacted Budget for this change.

As of June 20, 2011 there were 13,728.2 FTE positions filled, 1,229.4 less than the authorized amount in the FY 2011 Supplemental Budget. Since July 1, 2007, the State has reduced the FTE employed by 1,351.8. As a result of the significant decline in the number of State employees from the levels provided for in the enacted budget for FY 2008 (15,688.7), the State will be confronted with the challenge of reorganizing staffing to effectively render services to its residents with fewer employees.

STATE RETIREMENT SYSTEMS

The State faces significant financial challenges in addressing the unfunded pension liability of the State of Rhode Island Employees' Retirement System ("ERSRI"), which, as of June 30, 2010, was approximately $6.8 billion. This liability is the product of a number of factors, including; (i) investment performance during the last decade that was significantly lower than the actuarial assumed rate of return, (ii) certain demographic actuarial assumptions proving to be inconsistent with actual experience (such as retiree longevity), (iii) improvements in pension benefits to members prior to 1991 without corresponding funding, (iv) key decisions made prior to 2002 by the legislature and Retirement Board (as defined below) which had the effect of lowering contributions to ERSRI, and (v) other overly optimistic actuarial assumptions. In 2005, 2009, and 2010, the State reduced pension benefits in an effort to address the growing burden that pension benefits are placing on the State's budget. However, the magnitude of the unfunded pension liability together with significant costs related to postemployment healthcare benefits, pose a significant financial challenge to the State.

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

Prospective purchasers of the Bonds are further cautioned that the State anticipates that its future ARC to the Plans (as defined below) will increase. If there were to be a significant increase in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

See "Glossary" at the end of this section for the definitions of key capitalized terms used throughout this section.

Background Information Regarding the State Retirement Systems

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

Employees' Retirement System

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

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

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

Judicial Retirement Benefits Trust

The JRBT, a single-employer plan, was established under Sections 8-8.2-7, 8-3-16, 8-8-10.1, and 28-30-18.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances to judges appointed after December 31, 1989. State judges contribute currently 8.75% of their salary per year to the JRBT. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the judiciary. Pensions for 61 judges and their beneficiaries appointed prior to December 31, 1989 are funded on a pay-as-you-go basis and have an annualized cost of $5,981,807 as of fiscal year 2011.

State Police Retirement Benefits Trust

The SPRBT, a single-employer plan, was established under Section 42-28-22.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances, disability and death benefit coverage to State Police officers originally hired after July 1, 1987. State police officers contribute currently 8.75% of their salary per year to the SPRBT. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the State Police. Pensions for 259 State police officers and their beneficiaries hired prior to July, 31, 1987 are funded on a pay-as-you-go basis and have an annualized cost of $17,277,342 as of fiscal year 2011.

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

Other Background Information

The State also administers but does not contribute to the Municipal Employees' Retirement System, an agent multi-employer, defined-benefit pension plan. In addition, a separate retirement program is maintained for members of the faculty of the State University and colleges and certain administrative employees in education and higher education. This program is provided through Teachers' Insurance and Annuity Association Plan. This retirement program for education employees is a defined contribution plan to which the State contributes 9.5% of employee compensation.

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

Each of the Plans is a defined-benefit pension plan, which provides a fixed level of income to workers upon retirement. The amount of benefit to be paid out during the employee's retirement is typically determined by a formula based on the number of years worked and average salary. In addition, some plans, such as the Plans, provide for annual cost of living or other post retirement adjustments. In Rhode Island, benefits accrue during employment; however, certain age and service requirements must be achieved for an employee to receive a retirement or survivor's annuity upon retirement or termination. Retirement benefits are payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree.

To fund the future benefits owed to employees in a defined-benefit structure, ERSRI invests money contributed by both the employer and the employees during the employees' employment. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts determined by an actuarial process to be necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. Typically, the funds contributed by the employer and employee are invested in a mix of equity investments and fixed income vehicles, such as bonds. In a defined-benefit plan, however, the amount of the benefit owed to retirees is not tied to the performance of the investments held to pay them. The benefits owed to retirees will not be reduced should the investments be insufficient to pay benefits due. If the invested funds do not cover promised benefits, the employer is obligated to make up the shortfall.

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

Annual Reports and Audit Reports

The annual reports for ERSRI, issued for each fiscal year, are available at ERSRI's website. The audited financial statements for ERSRI for the fiscal year ended June 30, 2010 are available at the website of the State Auditor General.

As a part of the auditing process, the State's Auditor General observed a deficiency in ERSRI's financial reporting and made certain management comments related to controls which are reflected in the State Auditor General's report for the fiscal year ended June 30, 2010 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*" (the "Report"). A copy of the Report can be found at the website of the State Auditor General.

The deficiency cited in the Report, a failure to record an estimated contribution receivable of approximately $6 million on a timely basis, is considered a material weakness by the State's Auditor General. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of ERSRI's financial statements will not be prevented, or detected and corrected on a timely basis. The Report noted that there have been other instances where contributions receivable balances were misstated and recommended that ERSRI improve its controls and procedures for calculating contributions receivable for purposes of preparing its financial statements. ERSRI has indicated that it is seeking a new accounting system with enhanced capability for tracking accounts receivable and it expects to develop additional procedures to address the concerns raised in the Report.

Asset Allocation Policy

The State Investment Commission (the "Commission") establishes the long-term asset allocation policy (the "Asset Allocation Policy") and monitors investment performance of the Plans' assets. An asset/liability study is conducted periodically as requested by the Commission, usually every two to three years, to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. The Asset Allocation Policy incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the ERSRI. Table R-1 sets forth the asset allocation targets that were in place at June 30, 2010 and the actual percentage and fair value of the assets in the portfolio at June 30, 2010.

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

Type of Investment	Targets for Fiscal Year 2010	Actual Percentage and Fair Value at June 30, 2010*	
Domestic Equity	36.0%	34.0%	$2,213.3
International Equity	17.5%	16.9%	$1,102.9
US Fixed Income	22.0%	19.6%	$1,273.2
Real Return	10.0%	6.0%	$393.9
Alternative Investments	7.5%	9.7%	$631.3
Real Estate	5.0%	3.7%	$242.0
Cash	2.0%	10.1%	$655.9

Source: Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2010 (Management's Discussion and Analysis, Investments, page 5).

* Dollar amounts in millions.

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

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

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

ERS Membership

Table R-2 shows the current membership and member contributions for each of the Plans as provided by the June 30, 2010 Actuarial Valuation.

TABLE R-2
MEMBERSHIP AND MEMBER CONTRIBUTIONS

	Retirees And Beneficiaries	Active	Inactive	Total By Plan	Member Contributions (As A Percentage Of Salary)
ERS State Employees	11,421	11,122	2,518	25,061	8.75%
ERS Teachers	10,213	13,530	2,521	26,264	9.50%
Total By Type	21,634	24,652	5,039	51,325	

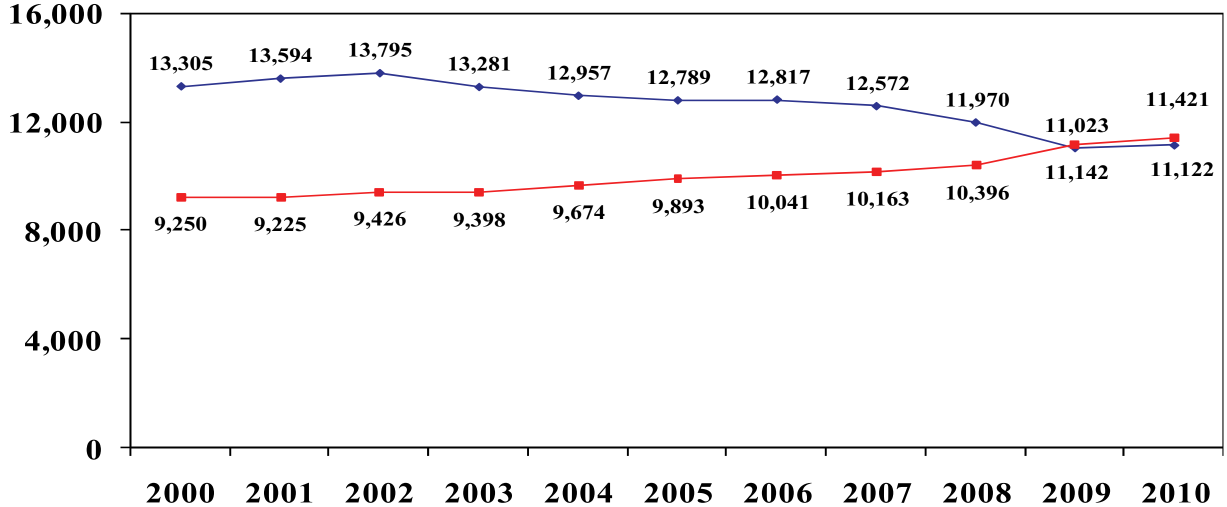
Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Executive Summary, pages 2-3).

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

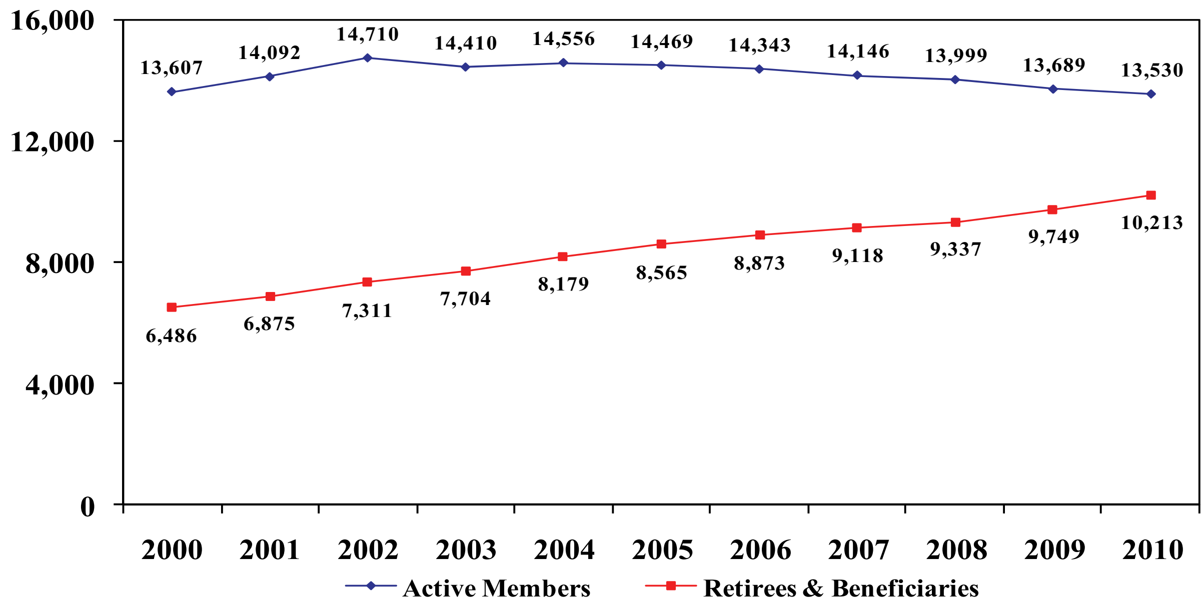
Chart R-1 below provides a graphical representation of active membership and retiree and beneficiary data for state employees and teachers from 2000 through 2010. The average active membership has decreased by 1.8% and 0.1% since 2000 for state employees and teachers, respectively. During that same time period, there has been an average increase in retired members of 2.1% and 4.6% for state employees and teachers, respectively.

CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



TEACHERS



Source: Presentation prepared by the Actuary regarding the ERSRI Actuarial Valuations as of June 30, 2010 (pages 11-12) (May 11, 2011).

The trends expressed by the graphs in Chart R-1 are a concern for the State. For state employees, there are now fewer active employees to support a growing number of retirees and beneficiaries. There has been a sharp decrease in active members for state employees over the last ten years. While the downward trend for teachers has been more gradual, it is likely that retirees and beneficiaries will soon outnumber active members. The decrease in active membership has been the result of early retirement incentives in the early 1990s, reductions in the size of the overall workforce, and demographic trends. These developments significantly increase the burden upon contributions from current employees, who are receiving lower salary increases than projected and unpaid furlough days, and from the State and LEAs, where total pension-related contributions for state employees and teachers has grown to approximately 23% of salary in 2011 and is projected to grow even higher to 35% of salary by 2013.

Actuaries and the Actuarial Valuation

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

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

The amount that the employer is required to contribute in a particular fiscal year to satisfy the Plans' funding requirements is referred to as the Annual Required Contribution, or ARC. Under Section 36-10-2 of the RIGL, the State is required to make the ARC by annually appropriating an amount equal to a percentage of the covered compensation paid to the active membership, as computed by the Actuary and certified by the Retirement Board. In computing the amount of the ARC, the Actuary determines the value of the contributions made by the Plans' members, income on ERSRI investments, and other income of the ERSRI. The Actuary then computes the ARC by determining the amount that will be necessary to (i) pay the actuarial estimate of the Normal Cost for the next succeeding fiscal year and (ii) amortize the Unfunded Actuarial Accrued Liability or "UAAL" of the Plans utilizing a time period not to exceed thirty (30) years. The current 30-year amortization period commenced as of July 1, 1999. Section 36-10-2.1 of the RIGL requires the Actuary to utilize the entry age normal ("EAN") actuarial cost method in computing the ARC and to amortize the UAAL over a period not to exceed thirty years. The ARC is intended to be sufficient to pay the Normal Cost and to amortize the UAAL in payments representing a level percentage of member compensation over the remaining portion of the fixed amortization period. Under State law, it is intended that by the end of the fixed amortization period there will be no UAAL in the Plans and is discussed further in the section entitled "Determination of Employer's Contributions & Historical Contribution Rates" below. For more information on the Normal Cost and EAN actuarial cost method, see "Actuarial Methods" below.

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

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

Actuarial Methods

As described above, the Actuary uses the EAN actuarial cost method to determine the ARC, which is the amount necessary to (i) pay the Normal Cost and (ii) amortize the UAAL over the remaining portion of the 30-year fixed amortization period (19 years remaining as of June 30, 2010).

Normal Cost

Under the EAN actuarial cost method, the Normal Cost is the present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment. For pension systems such as ERSRI with multiple tiers of benefits in which new members (members who will replace the current membership as they retire) have a different benefit structure than a portion of the current population, there are two variations of the method which are used to determine the Normal Cost:

> The Phase-In Method – The total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual and then added together. Under this method, the Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced ("Alternative 1").
>
> The Ultimate Normal Cost Method – The Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. In short, the method assumes, for purposes of the actuarial cost calculation, that the more limited benefits resulting from the pension reforms are applicable to all current employees ("Alternative 2").

The State uses Alternative 2. When benefit levels for new hires are lower than those applicable to members already in service, Alternative 1 will lead to a gradually decreasing overall Normal Cost rate. The Normal Cost rate under Alternative 2 will start out at a lower level than under Alternative 1, but will remain level taking a long-term view. Alternative 2 creates the most level contribution pattern because it assumes the same benefits apply to existing employees and new hires, rather than annually adjusting the contribution levels to account for the respective percentages of employees subject to various benefit packages. Both Alternative 1 and 2 conform to generally accepted actuarial principles and practices in accordance with the Actuarial Standards of Practice issued by the Actuarial Standards Board. However, because Alternative 2 assumes that existing employees are only entitled to the more restrictive benefits resulting from the pension reforms, it results in a lower Normal Cost than Alternative 1. If the Normal Cost for the new benefit structure is less than the blended Normal Cost of the group, then the present value of future normal costs will be lower and therefore the unfunded costs portion of the Actuarial Accrued Liability will be larger. This additional Actuarial Accrued Liability will be amortized over the remaining amortization period of the plan. This relationship between the Total Normal Cost and the Unfunded Actuarial Accrued Liability is reflected in Table R-3 below. ERSRI has used Alternative 2 since it adopted the EAN method in 1999; however Alternative 2 did not have a financial impact on ERSRI until the 2005 pension reforms. For more information on the pension reforms that implemented the more restrictive benefits, see "Recent Pension-Related Events - Pension Reform" herein. The method reflected in Alternative 2 has been subject to criticism because of the alleged potential it creates for underfunding. However, because ERSRI utilizes a closed amortization schedule for unfunded liabilities, this potential is minimized substantially.

Table R-3 shows the calculation, as of June 30, 2010, of the employer cost for ERSRI under Alternative 2 and provides a comparison showing what the employer cost would have been if computed under Alternative 1. The Table R-3 comparison was first developed for ERSRI by the Actuary in September 2010 in response to a media report on the impact of various actuarial cost methods on pension funding.

TABLE R-3
EMPLOYER COSTS

STATE EMPLOYEES

	Alternative 1	Alternative 2[(1)]
Total Normal Cost (% of payroll)	12.17%	11.39%
Unfunded Actuarial Accrued Liability	$2.67 billion	$2.70 billion
Funded Ratio	48.7%	48.4%
Contribution Requirement (% of payroll)	36.85%	36.34%
ARC	$250.0 million	$246.5 million

TEACHERS

	Alternative 1	Alternative 2[(1)]
Total Normal Cost (% of payroll)	12.82%	11.82%
Unfunded Actuarial Accrued Liability	$4.05 billion	$4.13 billion
Funded Ratio	48.9%	48.4%
Contribution Requirement (% of payroll)	35.64%	35.25%
ARC	$379.5 million	$375.3 million

Source: ERSRI Historical Funding Rates based on Various Funding Methods (June 2, 2011) (State Employees and Teachers), as prepared by the Actuary.

(1) Alternative 2 is the method employed by the State for determining Normal Cost, the cost attributable to amortizing the Unfunded Actuarial Accrued Liability and the ARC.

Actuarial Accrued Liability

Actuarial Accrued Liability is that portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs. The actuarial present value of benefits for active employees is determined by discounting the projected benefits for each member back to the valuation date using the assumed investment rate of return as the discount rate. As of June 30, 2010, the investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% investment rate of return was adopted in accordance with the recommendation of the Actuary. Pension Consulting Alliance, Inc. ("PCA"), the investment consultant to the Commission, advised the Retirement Board that based on PCA's ten-year capital market assumptions the probability of achieving a 7.50% compounded return over the next 10 years was 42.5%. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.

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

The actuarial present value of expected benefits for all active members is added to the actuarial present value of the expected future payments of retired participants and beneficiaries to obtain the actuarial present value of all expected benefits. The actuarial present value of future normal costs is based on the benefits applicable to new employees (as described under Alternative 2). In conformity with GASB 25 (as defined and discussed below), liabilities for future members are not included in the calculation of the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the actuarial value of the assets available in the pension plan to pay benefits. The Actuarial Value of Assets in a plan may be higher or lower than the market value of assets at any given time. In calculating the Actuarial Value of Assets, the State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. For the fiscal year ended June 30, 2010, the State used the assumed investment rate of return of 8.25% and the market value of assets (adjusted for receipts and disbursements during the year) to determine expected investment income. The actual returns, based on the market value of assets, are computed net of administrative and investment expenses.

Table R-4 and R-5 show the calculation of the Actuarial Value of Assets for state employees and teachers as of June 30, 2010 and also show the difference between the market value of assets and the Actuarial Value of Assets.

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

		Year Ending June 30, 2010
1.	Market value of assets at beginning of year	$ 1,954,618,465
2.	Net new investments	
	a. Contributions	$ 175,516,795
	b. Benefits paid	(305,065,290)
	c. Refunds	(4,373,614)
	d. Subtotal	(133,922,109)
3	Market value of assets at end of year	$ 2,083,616,670
4.	Net earnings (3-1-2) (includes misc revenues)	$ 262,920,314
5.	Assumed investment return rate for fiscal year	8.25%
6.	Expected return	$ 155,731,736
7.	Excess return (4-6)	$ 107,188,578
8.	Excess return on assets as of 06/30/2010:	

Period End	Excess Return	Percent Deferred[1]	Deferred Amount[2]
June 30, 2006	$ 74,912,423	0%	$ 0
June 30, 2007	238,155,576	20%	47,631,115
June 30, 2008	(388,486,957)	40%	(155,394,783)
June 30, 2009	(710,768,870)	60%	(426,461,322)
June 30, 2010	107,188,578	80%	85,750,862
Total			$ (448,474,128)

9.	Actuarial value of assets as of June 30, 2010 (Item 3 - Item 8)	$ 2,532,090,798
10.	Ratio of actuarial value to market value	121.5%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 7A, page 19).

(1) "Percent Deferred" refers to the percentage of the excess return (or loss) that is not recognized in the current year. For example, all excess return for the fiscal year ended June 30, 2006 is reflected in the Actuarial Value of Assets as of June 30, 2010 in Line 9, whereas 80% of the losses for the fiscal year ended June 30, 2010 have been deferred and only 20% of those losses are reflected in the Actuarial Value of Assets as of June 30, 2010 in Line 9.

(2) "Deferred Amount" refers to the actual market value of gains or losses that will be recognized in calculating the Actuarial Value of Assets for the fiscal years ending after June 30, 2010.

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

		Year Ending June 30, 2010
1.	Market value of assets at beginning of year	$ 2,962,026,384
2.	Net new investments	
	a. Contributions	$ 272,239,706
	b. Benefits paid	(436,853,273)
	c. Refunds	(3,176,593)
	d. Subtotal	(167,790,160)
3	Market value of assets at end of year	$ 3,196,511,775
4.	Net earnings (3-1-2) (includes misc revenues)	$ 402,275,551
5.	Assumed investment return rate for fiscal year	8.25%
6.	Expected return	$ 237,445,833
7.	Excess return (4-6)	$ 164,829,718
8.	Excess return on assets as of 06/30/2010:	

Period End	Excess Return	Percent Deferred[1]	Deferred Amount[2]
June 30, 2006	$ 111,575,597	0%	$ 0
June 30, 2007	356,579,946	20%	71,315,989
June 30, 2008	(582,055,743)	40%	(232,822,297)
June 30, 2009	(1,078,273,255)	60%	(646,963,953)
June 30, 2010	164,829,718	80%	131,863,774
			$ (676,606,487)

9.	Actuarial value of assets as of June 30, 2010 (Item 3 - Item 8)	$ 3,873,118,262
10.	Ratio of actuarial value to market value	121.2%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 7B, page 20).

(1) "Percent Deferred" refers to the percentage of the excess return (or loss) that is not recognized in the current year. For example, all excess return for the fiscal year ended June 30, 2006 is reflected in the Actuarial Value of Assets as of June 30, 2010 in Line 9, whereas 80% of the losses for the fiscal year ended June 30, 2010 have been deferred and only 20% of those losses are reflected in the Actuarial Value of Assets as of June 30, 2010 in Line 9.

(2) "Deferred Amount" refers to the actual market value of gains or losses that will be recognized in calculating the Actuarial Value of Assets for the fiscal years ending after June 30, 2010.

Unfunded Actuarial Accrued Liability

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

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

As set forth in Table R-6, as of June 30, 2010, the UAAL for state employees was $2,700,450,527 and the Actuarial Funded Ratio was 48.4%. As of June 30, 2010, the UAAL for teachers was $4,133,195,600 and the Actuarial Funded Ratio was 48.4%.

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

TABLE R-6
SCHEDULES OF FUNDING PROGRESS (ERSRI)

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

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

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
SPRBT (STATE POLICE)								
6/30/2004	$24,767,014	$32,689,173	$ 7,922,160	75.8%	$11,421,880	69.4%	$24,495,990	74.9%
6/30/2005	29,616,896	37,510,992	7,894,096	79.0%	13,225,400	59.7%	30,457,966	81.2%
6/30/2006	36,314,689	42,216,142	5,901,453	86.0%	13,474,588	43.8%	38,131,989	90.3%
6/30/2007(1)	45,996,910	60,427,947	14,431,037	76.1%	15,836,354	91.1%	50,445,259	83.5%
6/30/2008	54,927,390	69,029,513	14,102,123	79.6%	16,698,764	84.5%	51,883,909	75.2%
6/30/2009	60,232,045	75,480,005	15,247,960	79.8%	17,096,202	89.2%	45,747,494	60.6%
6/30/2010(3)	65,760,284	83,099,931	17,339,647	79.13%	19,715,070	88.0%	56,464,727	67.9%
6/30/2010	65,760,284	94,300,302	28,540,018	69.70%	19,715,070	145.6%	56,464,727	59.9%
JRBT (JUDGES)								
6/30/2004	$16,019,053	$21,845,744	$ 5,826,691	73.3%	$ 5,637,865	103.3%	$15,844,213	72.5%
6/30/2005	19,347,372	22,250,728	2,903,356	87.0%	5,684,585	51.1%	19,892,509	89.4%
6/30/2006	23,873,009	27,504,102	3,631,093	86.8%	6,313,069	57.5%	25,055,824	91.1%
6/30/2007(1)	29,630,637	35,355,326	5,724,689	83.8%	6,451,666	88.7%	32,548,957	92.1%
6/30/2008(2)	34,670,394	38,115,602	3,445,208	91.0%	6,601,889	52.2%	32,783,006	86.0%
6/30/2009	36,839,221	41,738,040	4,898,819	88.3%	6,843,454	71.6%	27,729,085	66.4%
6/30/2010(3)	38,074,287	44,605,741	6,532,454	85.4%	7,461,120	87.5%	32,267,469	72.3%
6/30/2010	38,074,287	48,941,360	10,867,073	77.8%	7,461,120	145.6%	32,267,469	65.9%

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

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

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

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

Determination of Employer's Contributions & Historical Contribution Rates

Accounting requirements for the Plans are set by GASB 25. GASB 25 requires that defined-benefit plans calculate an ARC, and, if actual contributions made by the State to its Plans are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. For purposes of amortizing its UAAL, the State uses a fixed 30-year amortization period from June 30, 1999 (which is the maximum acceptable amortization period under GASB 25). A fixed amortization period is a specific number of years that decreases each year. Initially, the amortization period is set at 30 years and the amortization schedule is spread out over that 30-year period. The amortization period decreases by one each year. For example, a fixed 30-year amortization period will have 29 years remaining at the end of year one, 28 years at the end of year two and so on. As of the June 30, 2010 Actuarial Valuation, the State had 19 years remaining on its fixed amortization period. The Actuary considers the funding period being used in connection with the Plans to be reasonable and in accordance with GASB 25 as discussed below. Under the State's fixed amortization schedule, using current assumptions and projected future economic conditions, future employer contributions will increase significantly.

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

Tables R-8 and R-9 below show the State's calculated contribution rates for state employees and teachers as of June 30, 2010. The payroll growth rate used in the amortization calculations is determined by the Retirement Board and does not include any allowance for membership growth in accordance with GASB 25. See "Actuarial Assumptions" below.

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

		June 30, 2010		June 30, 2009
		After Assumption Changes	Before Assumption Changes	Disclosed in Prior Year's Report
1.	Compensation			
	(a) Supplied by ERSRI	$ 599,879,497	$ 599,879,497	$ 574,569,170
	(b) Adjusted for one-year's pay increase	630,246,973	632,503,225	605,872,460
2.	Actuarial accrued liability	5,232,541,325	4,651,175,973	4,482,244,291
3.	Actuarial value of assets	2,532,090,798	2,532,090,798	2,646,081,020
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,700,450,527	2,119,085,175	1,836,163,271
5.	Remaining amortization period at valuation date	19	19	20
6.	Contribution effective for fiscal year ending:	June 30, 2013	June 30, 2013	June 30, 2012
7.	Payroll projected for two-year delay	678,401,780	687,408,458	658,465,977
8.	Amortization of UAAL	228,591,347	178,377,912	147,441,017
9.	Normal cost			
	(a) Total normal cost rate	11.39%	9.35%	9.34%
	(b) Employee contribution rate	8.75%	8.75%	8.75%
	(c) Employer normal cost rate (a - b)	2.64%	0.60%	0.59%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	2.64%	0.60%	0.59%
	(b) Amortization payments (8 / 7)	33.70%	25.95%	22.39%
	(c) Total (a + b)	36.34%	26.55%	22.98%
11.	Estimated employer contribution amount (7 * 10(c))	$246,531,207	$182,506,946	$151,315,482

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 1A, page 11).

TABLE R-9
DEVELOPMENT OF CONTRIBUTION RATE (TEACHERS)

		June 30, 2010		June 30, 2009
		After Assumption Changes	Before Assumption Changes	Disclosed in Prior Year's Report
1.	Compensation			
	(a) Supplied by ERSRI	$ 936,748,851	$ 936,748,851	$ 930,993,404
	(b) Adjusted for one-year's pay increase	989,236,951	992,874,301	987,463,633
2.	Actuarial accrued liability	8,006,313,862	7,150,987,128	6,900,963,108
3.	Actuarial value of assets	3,873,118,262	3,873,118,262	4,008,931,337
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	4,133,195,600	3,277,868,866	2,892,031,771
5.	Remaining amortization period at valuation date	19	19	20
6.	Contribution effective for fiscal year ending:	June 30, 2013	June 30, 2013	June 30, 2012
7.	Payroll projected for two-year delay	1,064,820,837	1,079,061,995	1,073,181,648
8.	Amortization of UAAL	350,610,223	277,375,631	233,967,252
9.	Normal cost			
	(a) Total normal cost rate	11.82%	10.00%	10.02%
	(b) Employee contribution rate	9.50%	9.50%	9.50%
	(c) Employer normal cost rate (a - b)	2.32%	0.50%	0.52%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	2.32%	0.50%	0.52%
	(b) Amortization payments (8 / 7)	32.93%	25.71%	21.80%
	(c) Total (a + b)	35.25%	26.21%	22.32%
11.	Estimated employer contribution amount (7 * 10(c))	$375,349,345	$282,822,149	$239,534,144

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 1B, page 12).

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

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

ERS

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

Source: For fiscal years 2005-2010, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2010 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 39). For fiscal years 2001-2004, see Annual Financial Report for the fiscal year ending June 30, 2006 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 35).

TABLE R-11
HISTORY OF EMPLOYER CONTRIBUTION RATES

Valuation Date as of June 30,	Fiscal Year Ending June 30,	Employer Contribution Rate as a Percentage of Covered Payroll
State Employees		
2001	2004	9.60%
2002	2005	11.51%
2003	2006	14.84%
2004	2007	18.40%
2005	2008	20.77%
2006	2009	21.64%(1)
2007	2010	20.78%(2)
2008	2011	20.78%
2009	2012	22.98%
2010	2013	36.34%
Teachers		
2001	2004	13.72%
2002	2005	14.84%
2003	2006	16.47%
2004	2007	19.64%
2005	2008	22.01%
2006	2009	20.07%(1)
2007	2010	19.01%(2)
2008	2011	19.01%
2009	2012	22.32%
2010	2013	35.25%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 10B, page 24).

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

The following table provides an analysis of the change in the employer ARC from the June 30, 2009 Actuarial Valuation to the June 30, 2010 Actuarial Valuation:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
1. Employer contribution rates from prior valuation[1]	22.98%	22.32%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss[2]	0.99%	0.43%
b. Salary (gain)/loss	-0.07%	-0.06%
c. Total payroll growth (gain)/loss	-0.03%	0.94%
d. Investment experience (gain)/loss	2.68%	2.58%
e. Changes in assumptions	9.79%	9.04%
f. Changes in plan provisions	0.00%	0.00%
g. Total	13.36%	12.93%
3. Employer contribution rates from current valuation[1]	36.34%	35.25%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 10A, page 23).

(1) The employer contribution rate is a percentage of payroll.
(2) During fiscal year 2010, the ERS experienced material liability losses due to retiree mortality and termination experience. In addition, especially for state employees, there was an additional variance due to many additional retirements due to Article 4 during fiscal year 2010 due to legislative changes in post retirement health benefits.

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

Actuarial Valuation Date	Actuarial Value of Assets (in Millions $) (a)	Actuarial Accrued Liability (AAL) (in Millions $) (b)	Unfunded AAL (UAAL) (in Millions$) (b-a)	Actuarial Funded Ratio (a / b)	Annual Required Contribution (ARC) (in Millions $)	Market Value of Assets (in Millions $) (d)	Funded Ratio at Market Value (d / b)
STATE EMPLOYEES							
6/30/2011	2,394.0	5,361.4	2,967.4	44.7%	148.8	2,096.3	39.1%
6/30/2012	2,215.8	5,488.7	3,272.9	40.4%	242.7	2,116.5	38.6%
6/30/2013	2,203.4	5,615.4	3,412.0	39.2%	270.2	2,224.8	39.6%
6/30/2014	2,359.0	5,741.4	3,382.4	41.1%	302.9	2,359.0	41.1%
6/30/2015	2,526.4	5,866.8	3,340.4	43.1%	328.2	2,526.4	43.1%
6/30/2016	2,721.4	5,990.9	3,269.5	45.4%	337.8	2,721.4	45.4%
6/30/2017	2,929.0	6,113.1	3,184.1	47.9%	350.7	2,929.0	47.9%
6/30/2018	3,153.2	6,232.8	3,079.6	50.6%	364.4	3,153.2	50.6%
6/30/2019	3,396.2	6,350.1	2,953.9	53.5%	378.7	3,396.2	53.5%
6/30/2020	3,659.4	6,464.2	2,804.8	56.6%	393.3	3,659.4	56.6%
TEACHERS							
6/30/2011	3,695.1	8,244.6	4,549.5	44.8%	227.8	3,246.2	39.4%
6/30/2012	3,479.5	8,490.4	5,010.9	41.0%	371.9	3,329.8	39.2%
6/30/2013	3,523.7	8,742.9	5,219.2	40.3%	413.1	3,556.7	40.7%
6/30/2014	3,829.7	9,001.2	5,171.5	42.5%	461.5	3,829.7	42.5%
6/30/2015	4,158.9	9,265.0	5,106.1	44.9%	499.1	4,158.9	44.9%
6/30/2016	4,536.3	9,533.7	4,997.4	47.6%	513.4	4,536.3	47.6%
6/30/2017	4,940.0	9,806.3	4,866.3	50.4%	531.7	4,940.0	50.4%
6/30/2018	5,375.5	10,082.4	4,706.9	53.3%	551.4	5,375.5	53.3%
6/30/2019	5,845.5	10,361.4	4,515.9	56.4%	572.2	5,845.5	56.4%
6/30/2020	6,352.4	10,642.2	4,289.8	59.7%	593.4	6,352.4	59.7%

Source: The figures in Table 13 were calculated for ERSRI by the Actuary.
(1) The ERS is projected to be 100% funded as of June 30, 2029.

Actuarial Assumptions

General

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

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

Item	State Employees	Teachers
Valuation date	June 30, 2010	June 30, 2010
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	19 years	19 years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%(1)	7.50%(1)
Projected salary increase*	4.00% to 7.00%	4.00% to 12.75%
*Includes inflation at:	2.75%	2.75%
Cost of living adjustments (COLAs)(2):		
Schedule A (grandfathered)	3.00%	3.00%
Schedule A (non-grandfathered)	2.35%	2.35%
Schedule B	2.35%	2.35%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Notes to Required Supplementary Information (as required by GASB 25), Section C - Table 4, page 16).

(1) As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.
(2) Schedule A members are those ERS members who had at least ten years of contributing service as of June 30, 2005; Schedule B members are all other ERS members. The grandfathered Schedule A members are those ERS members who retired or were eligible to retire on September 30, 2009.

Assumed Investment Rate of Return

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

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

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

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

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

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

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

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

History of Investment Return Rates

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

TABLE R-15
HISTORY OF INVESTMENT RETURN RATES

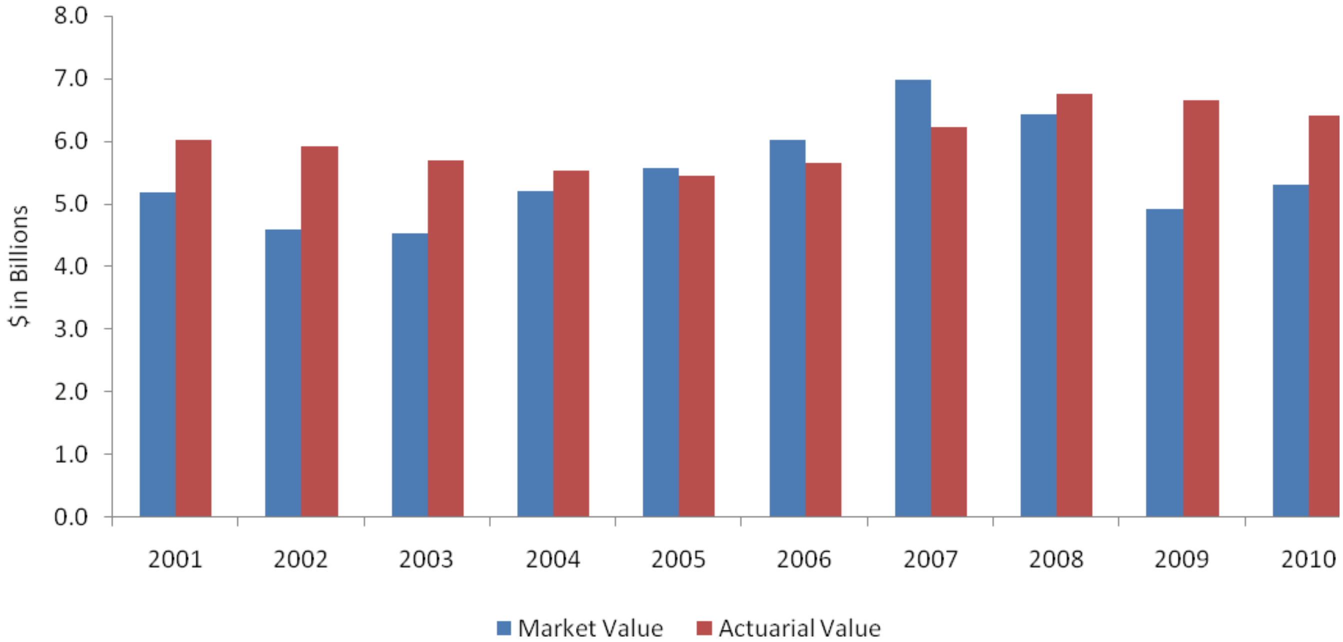
Year Ending June 30 of:	ERS	
	Market Return	Actuarial Return (1)
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
Average Returns	Market	Actuarial
Last 5 Years	2.51%	6.74%
Last 10 Years	2.28%	4.05%

Source: ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C - Table 9).
(1) The investment return rates in this column were calculated using the State's five-year asset smoothing method.

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

The following chart shows the fluctuation between ERSRI's Actuarial Value of Assets using asset smoothing and market value of the assets from 2001 through 2010.

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



Source: Analysis of Rhode Island's Discount Rate, Asset Smoothing Methodology and Amortization Period (Report of the Rhode Island General Treasurer, page 6)(May 2011).

Chart R-2 demonstrates how asset smoothing provides a more consistent value of assets, which in turn provides for a smoother and more predictable ARC for the State. However, there can be a wide spread between the market value of assets and the actuarial value of assets at any specific point in time. For example, as of June 30, 2010, the Actuarial Value of Assets was approximately $6.4 billion, but the market value of the assets was approximately $5.3 billion (a difference of $1.1 billion). If the market value of assets is consistently less than the Actuarial Value of Assets, the distortion of the UAAL caused by asset smoothing can become problematic and cause the UAAL to grow. It is important to note that eventually the two values will converge with either the market value increasing to the actuarial value or the actuarial value decreasing to the market value if the market value does not recover.

As can be seen in Table R-15 and Chart R-2, volatile market conditions resulted in significant adverse investment returns on the Plans' assets in fiscal years 2008 and 2009. While fiscal year 2010 produced gains in the market value of assets, the market remains unstable. No assurances can be given that adverse market conditions will not return in future fiscal years, leading to a continued increase in the UAAL. In the event that such adverse market conditions return in future fiscal years, lower than expected investment performance could result in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL and the State's ARC.

Recent Pension-Related Events

Pension Reform

In the last several years, the State has modified the pension benefit structure and reduced benefits in order to address the growing burden that pension obligations were placing on the State budget. The reforms enacted in 2005, 2009 and 2010 as described below are reflected in the June 30, 2010 Actuarial Valuation.

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

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

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

Although the pension reforms summarized above have contributed to a reduction in the ARC and UAAL, these pension reforms are already fully reflected and therefore are not expected to materially reduce either the ARC or the UAAL going forward. The initial reduction in the ARC and UAAL resulting from these pension reforms is based on the application of the more limited benefit structure (created by the pension reforms) to all employees and the use of Alternative 2 for determining Normal Cost. Under Alternative 2, the Normal Cost, and thus the ARC, starts out at a lower point, but remains more level when taking a long-term view.

Pension Litigation

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State has filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint. The motion is scheduled for hearing in State Superior Court on July 18, 2011.

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

SEC Investigation

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

Further Proposed Pension Reforms

In May 2011, the Rhode Island Office of the General Treasurer released a report on the status of ERSRI entitled "Truth in Numbers: The Security and Sustainability of Rhode Island's Retirement System" (the "General Treasurer's Report"). The General Treasurer's Report can be found at the website of the Rhode Island Office of the General Treasurer.

The General Treasurer's Report outlines various proposals for comprehensive pension reform, including (i) establishing accurate and transparent actuarial assumptions and reevaluating such assumptions on a more regular basis, (ii) changing contribution levels, the structure of retiree benefits (such as reassessing the proper retirement age, annual accrual rate, and COLAs), as well as exploring other benefit features, and (iii) implementing certain self-correcting measures for ERSRI (such as establishing funding targets and adjusting benefit and contribution levels automatically if Funded Ratios of the Plans drop below targeted funding levels or the State's ARC exceeds certain percentages of State revenue or the State budget). The General Treasurer's Report also noted that ERSRI is extremely underfunded and any solution to correct the underfunding would likely require some combination of an equity infusion and changes to retiree benefits. In order for many of the foregoing proposals and alternatives to be implemented, legislative action would be required.

In June 2011, the Governor and General Treasurer announced the formation of a pension advisory group comprised of local and national experts on pension reform, including academics, union leaders, government officials, and business professionals (the "Pension Advisory Group"). The mission of the Pension Advisory Group is to organize information for and make recommendations to the Governor and General Treasurer as they work towards developing comprehensive pension reform that is intended to achieve the following goals: (i) attracting quality employees, (ii) providing a level of security for retirees and beneficiaries, (iii) preserving funding for public services, and (iv) protecting taxpayers. The Governor and General Treasurer expect to submit a proposed set of pension reforms to the General Assembly in the fall of 2011. It is anticipated that the General Assembly will hold a special session in October 2011 to address pension reform. There is no assurance that the General Assembly will pass pension reform legislation or that the underfunding of the pension plans will be adequately addressed.

GASB Exposure Draft

On June 16, 2010, GASB released a document for public comment entitled "Preliminary Views of the Governmental Accounting Standards Board on major issues related to Pension Accounting and Financial Reporting by Employers" (the "Preliminary Views"). The Preliminary Views propose certain revisions to GASB Statements 25, 27, and 50, which are the accounting and financial reporting standards for pensions on the basis of which much of the information included in this section of the Information Statement is derived.

The State's reporting on its pension system would be affected by some of the changes addressed in the Preliminary Views, which include, among other proposed changes, (i) the separation of accounting and financial reporting requirements from funding approaches, (ii) a requirement to report "net pension liability" (defined as total pension liability minus a pension plan's net assets) on the State's balance sheet, (iii) the modification of a pension plan's discount rate into a blended rate reflecting both the assumed investment rate of return (for projected benefits to be paid from current and expected future plan net assets) and a rate of return based on a high-quality municipal bond index (for projected benefit payments that are expected to be made after plan net assets are projected to be fully depleted), and (iv) the immediate recognition of accumulated investment gains or losses in excess of 15% in the State's financial statements.

On June 27, 2011, GASB released an exposure draft for public comment (the "Exposure Draft"), which marks the next step in implementing the revisions detailed in the Preliminary Views. GASB has stated that it expects the proposed changes described in the Preliminary Views and Exposure Draft to become effective in 2013.

GLOSSARY

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

FASB Rate:	The assumed investment rate of return as dictated by the Financial Accounting Standards Board, which sets the accounting rules for private pension plans and requires such plans to use an assumed investment rate of return consistent with the yields on high quality corporate bonds rated AA or better.
Funded Ratio:	The ratio of (A) the Actuarial Value of Assets (or market value of assets) to (B) Actuarial Accrued Liabilities. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.
Funded Status:	A value determined by subtracting (A) the Actuarial Accrued Liabilities from (B) Actuarial Value of Assets. Such valuation can be on an actuarial or a market value basis.
GASB:	Governmental Accounting Standards Board
GASB 25:	Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
General Treasurer's Report:	A report released in May 2011 by the Rhode Island Office of the General Treasurer on the status of ERSRI entitled "Truth in Numbers: The Security and Sustainability of Rhode Island's Retirement System".
JRBT:	The Judicial Retirement Benefits Trust
LEAs:	Local education agencies, such as municipalities, who contribute as employers to the ERS with respect to teachers.
Normal Cost:	The present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment.
Plans:	The ERS, JRBT and SPRBT, collectively
Report:	The State Auditor General's report for the fiscal year ended June 30, 2010 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
Retirement Board:	The State of Rhode Island Retirement Board
RIGL:	The State of Rhode Island General Laws
SEC:	The United States Securities and Exchange Commission
SPRBT:	The State Police Retirement Benefits Trust
UAAL:	Unfunded Actuarial Accrued Liability, which is the difference between (A) the Actuarial Value of Assets (or market value of assets) and (B) the Actuarial Accrued Liability. Such valuation can be on an actuarial or a market value basis.

OTHER BENEFITS

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

RETIREE HEATH CARE BENEFITS

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

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

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

Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* and Rhode Island law the State has obtained an updated actuarial valuation of the unfunded liability relating to retiree health care benefits. The unfunded liability as of June 30, 2009, the date of the latest valuation, was determined to be approximately $774.7 million, including $673.6 million for State employees, $67.1 million for State Police, $11.8 million for Legislators, $8.7 million for Judges, and $13.5 million for the State's share for teachers. This was calculated using an assumed investment rate of return of 5.0% due to the fact that for fiscal year ending June 30, 2011, a Trust was established and the plan was funded on an actuarially determined basis. The annual required contribution as a percentage of payroll for fiscal year 2011 is 6.74%, 25.67%, 95.49% and 9.86% (no rate for teachers), respectively. The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liability as of June 30, 2009 utilizing a short-term investment rate of 3.566% was $916.0 million.

The June 30, 2009 valuation included a number of changes in actuarial assumptions. These changes include an increase in the discount rate from 3.566% to 5.00%, a change in the medical trend assumption of 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 8 years, a change in the Medicare election rate for Legislators from 0% electing Medicare to 75% electing Medicare and the addition of the assumption that current retired teachers over the age of 65 in the Early Retiree Plan are assumed to not be eligible for Medicare. In addition, the wage inflation rate was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

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

The total contributions made by the State and the other participating employees for retiree health care benefits were $38.4 million in FY 2010, which contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and pay administrative costs. The actuarial valuation report as of June 30, 2009 projects that the annual required contribution for FY2012 will be $51.7 million (based on a discount rate of 5.0%).

For further information about retiree health care benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2010 which are attached hereto in Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

In November 2007, the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island were ordered by an arbitrator to pay a contractor, DePasquale Building and Realty Company, $3.3 million in damages relating to the construction of a new facility. This decision was appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island. On June 29, 2009, the Rhode Island Superior Court rendered its decision on the matter by vacating the arbitration award except for progress payments in the amount of $327,000 owed to Depasquale and $155,000 owed to a subcontractor, Delta Mechanical Contractors. Delta was subsequently paid. The court decision has been appealed by DePasquale to the Rhode Island Supreme Court. The parties have filed their initial briefing statements and expect that the issue will require full briefing prior to a hearing.

In May 2010, the Rhode Island Council 94 and seven other unions filed an action, which was subsequently amended, in the State Superior Court against the Governor of the State of Rhode Island and other State officials in their official capacities and the Employee's Retirement System of the State of Rhode Island to request the Court to declare that the changes adopted by the State in connection with Public Law 2009, Chapter 68, Article 7 and Public Law 2010, Chapter 23, Article 16 that reduces pension benefits to certain State and municipal employees are unconstitutional and violate the Rhode Island Constitution's Contract Clause (Art. 1, Section 12) and Takings Clause (Art. 1, Section 16). The change in the laws with respect to pension benefits were adopted in order to reduce the costs to the State and local government for employee pensions in the aggregate amount of approximately $75.0 million annually. The State intends to vigorously contest the lawsuit. The State has filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint. The motion is scheduled for hearing in State Superior Court on July 18, 2011.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and construction of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Raito's claims total approximately $9 million, consisting of an alleged unpaid contract balance of approximately $2.8 million and approximately $6.2 million in purported extra work. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

In late 2009 Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several state employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $15,000,000. The State has denied the claim in its totality and will contest all damages.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. Cranston and Chariho have both filed Administrative Procedures Act appeals in Superior Court which are currently pending. Both Cranston and Chariho have also filed Petitions for Writs of Certiorari in connection with their Petitions for Writs of Mandamus which were previously denied.

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

The State was sued by Brett Roy, who became a quadriplegic after diving into a pond at Veterans Memorial Park in Woonsocket. The Trial is still pending. Plaintiff's special damages exceed $70,000,000 The State intends to continue to contest this case.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2010, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

EXHIBIT A

Audited Financial Statements of the State

EXHIBIT A

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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♦ *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, 2010, 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 63% of the assets and 1% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 6J, the State has borrowed $225 million from the federal Unemployment Insurance Trust Fund to fund employment insurance benefits paid from the Employment Security Fund, a major fund, to eligible unemployed individuals. The Employment Security Fund had a deficit net asset balance of $116 million at June 30, 2010.

In accordance with *Government Auditing Standards*, we have issued our report dated December 30, 2010 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages A-3 through A-15, the Budgetary Comparison Schedules on pages A-63 through A-64, and the Schedules of Funding Progress on pages A-64 through A-65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dennis E. Hoyle, CPA
Acting Auditor General

December 30, 2010

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, 2010. 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, 2010 by $801.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,597.1) million was reported as unrestricted net assets (deficit), $380.9 million as restricted net assets, and $2,017.3 million as invested in capital assets, net of related debt.

- **Changes in Net Assets:** In the Statement of Activities, the State's total net assets increased by $3.3 million in fiscal year 2010. Net assets of governmental activities increased by $128.3 million, while net assets of the business-type activities decreased by $125.0 million.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $883.7 million, a decrease of $14.8 million in comparison with the previous fiscal year, primarily as a result of expenditure of bond and note proceeds in the various capital projects funds.

- The General Fund ended the current fiscal year with an unreserved, undesignated balance of $17.9 million, an increase of $80.2 million from June 30, 2009.

    - This significant increase in fund balance is primarily attributable to the inclusion in the final revised FY2010 budget of sufficient resources to fully fund the deficit that existed at the end of FY2009. In addition, very careful management of expenditures in FY2010 resulted in actual general revenue expenditures being $23.2 million less than the amount included in the final revised budget.

    - The Budget Reserve and Cash Stabilization Account ended the fiscal year with a balance of $112.3 million, the maximum allowed by law. This is an increase of $32.2 million in comparison with the previous fiscal year.

- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $3.4 million, which was an increase of $3.2 million from the previous year.

- The GARVEE Fund ended its fiscal year with a fund balance of $162.2 million, a decrease of $105.9 million in comparison with the previous fiscal year. Of the fund balance, $17.3 million is reserved for debt. The decrease in fund balance resulted from planned expenditures for a number of infrastructure projects.

- The Bond Capital Fund ended the fiscal year with a fund balance of $139.5 million, an increase of $78.0 million from the previous year. This increase is primarily attributable to the issuance of $143.8 million of new bonds in the latter part of the fiscal year.

Proprietary Funds

- The Rhode Island State Lottery transferred $344.7 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $7.2 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a deficit of ($116.2) million, as compared with a fund balance of $6.8 million at the end of fiscal year 2009. This change was primarily attributable to a significant increase in unemployment benefits paid as a result of the very high unemployment rate in the State. This necessitated the borrowing of an additional $155.2 million from the Federal Unemployment Trust Fund.

- The R.I. Convention Center Fund ended the fiscal year with a net asset deficiency of ($47.3) million, a reduction of $2.7 million compared with the prior year. The Fund has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is longer than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of 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(C). The Intermodal Surface Transportation Fund, Bond Capital 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. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State does not distinguish between major and non-major component units and includes the combining statement for the discretely presented component units as part of the basic financial statements.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled $801.1 million at the end of fiscal year 2010, compared to $797.8 million at the end of the prior fiscal year. Governmental activities have unrestricted net assets (deficit) of ($1,590.4) million.

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

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

State of Rhode Island's Net Assets as of June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009*	2010	2009	2010	2009*
Current and other assets	$ 1,673,986	$ 1,610,728	$ 150,798	$ 120,086	$ 1,824,784	$ 1,730,814
Capital assets	3,048,505	2,855,128	196,283	205,282	3,244,788	3,060,410
Total assets	4,722,491	4,465,856	347,081	325,368	5,069,572	4,791,224
Long-term liabilities outstanding	2,848,899	2,796,056	482,646	335,548	3,331,545	3,131,604
Other liabilities	900,878	825,379	36,035	36,394	936,913	861,773
Total liabilities	3,749,777	3,621,435	518,681	371,942	4,268,458	3,993,377
Net assets:						
Invested in capital assets, net of related debt	2,079,153	1,958,718	(61,806)	(59,453)	2,017,347	1,899,265
Restricted	483,931	420,215	(103,022)	20,130	380,909	440,345
Unrestricted	(1,590,370)	(1,534,512)	(6,772)	(7,251)	(1,597,142)	(1,541,763)
Total net assets (as restated)	$ 972,714	$ 844,421	$ (171,600)	$ (46,574)	$ 801,114	$ 797,847

* - Cumulative effect of prior period adjustments is fully explained in Note 17(F).

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,597.1) million at June 30, 2010 in the Statement of Net Assets. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

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

- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependent on the State for care.

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

The long-term liabilities of business-type activities increased primarily as a result of the State borrowing $225 million from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits from the Employment Insurance Fund to eligible unemployed individuals.

Changes in Net Assets

The State's net assets increased by $3.2 million during the current fiscal year. Total revenues of $9,125.8 million were more than expenses of $9,122.6 million. Approximately 28.2% of the State's total revenue came from taxes, while 32.2% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 38.2% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 31.8%, and education, 14.0%. In fiscal year 2010, governmental activity expenses exceeded program revenues by $2,870.6 million, with excess expenses being funded through general revenues. On the other hand, net program revenues from business-type activities in fiscal year 2010 exceeded expenses by $173.4 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 462,226	$ 428,854	$ 3,021,260	$ 2,772,889	$ 3,483,486	$ 3,201,743
Operating grants and contributions	2,361,446	2,114,821	418,270	194,857	2,779,716	2,309,678
Capital grants and contributions	162,090	103,515			162,090	103,515
General revenues:						
Taxes	2,577,519	2,588,417			2,577,519	2,588,417
Interest and investment earnings	4,309	9,435	164	4,279	4,473	13,714
Miscellaneous	91,110	95,758	20,224	11,782	111,334	107,540
Gain on sale of capital assets		1,656				1,656
Payments from component units	7,228	13,569			7,228	13,569
Total revenues	5,665,928	5,356,025	3,459,918	2,983,807	9,125,846	8,339,832
Program expenses:						
General government	741,329	754,386			741,329	754,386
Human services	2,900,673	2,719,346			2,900,673	2,719,346
Education	1,273,985	1,287,577			1,273,985	1,287,577
Public safety	418,485	414,830			418,485	414,830
Natural resources	73,551	75,103			73,551	75,103
Transportation	305,460	324,007			305,460	324,007
Interest	142,924	136,737			142,924	136,737
Lottery			2,431,562	2,215,602	2,431,562	2,215,602
Convention Center			50,732	48,764	50,732	48,764
Employment insurance			783,878	573,288	783,878	573,288
Total expenses	5,856,407	5,711,986	3,266,172	2,837,654	9,122,579	8,549,640
Change in net assets before transfers	(190,479)	(355,961)	193,746	146,153	3,267	(209,808)
Transfers	318,772	315,408	(318,772)	(315,408)		
Change in net assets	128,293	(40,553)	(125,026)	(169,255)	3,267	(209,808)
Net assets - Beginning	835,635	876,188	(46,574)	122,681	789,061	998,869
Cumulative effect of prior period adjustments	8,786				8,786	
Net assets - Beginning, as restated	844,421	876,188	(46,574)	122,681	797,847	998,869
Net assets - Ending	$ 972,714	$ 835,635	$ (171,600)	$ (46,574)	$ 801,114	$ 789,061

The cumulative effect of prior period adjustments are fully explained in Note 17(F).

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 $883.7 million, a decrease of $14.8 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $112.3 million for a "rainy day" account, (2) $57.9 million for continuing appropriations, (3) $90.4 million principally for liquidating debt, (4) $149.9 million for employment insurance programs and (5) $35.6 million for transportation capital projects. Additionally, $371.6 million of the ending fund balance, are debt proceeds that were issued for specific capital projects.

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 $17.9 million, while total fund balance was $188.0 million.

Revenues and other sources of the General Fund totaled $5,509.9 million in fiscal year 2010, an increase of $291.6 million, 5.59%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

	2010	2009	Increase (decrease) from 2009 Amount	Percent
Taxes:				
Personal income	$ 879,007	$ 897,305	$ (18,298)	-2.04%
Sales and use	1,002,233	998,513	3,720	0.37%
General business	355,664	345,792	9,872	2.85%
Other	37,543	37,359	184	0.49%
Subtotal	2,274,447	2,278,969	(4,522)	-0.20%
Federal grants	2,275,606	2,001,605	274,001	13.69%
Restricted revenues	149,638	133,872	15,766	11.78%
Licenses, fines, sales, and services	310,505	295,069	15,436	5.23%
Other general revenues	27,351	30,307	(2,956)	-9.75%
Subtotal	2,763,100	2,460,853	302,247	12.28%
Total revenues	5,037,547	4,739,822	297,725	6.28%
Other sources	472,355	478,516	(6,161)	-1.29%
Total revenue and other sources	$ 5,509,902	$ 5,218,338	$ 291,564	5.59%

The increase in Federal grants of $274.0 million is primarily attributable to new funds received by the State under the American Recovery and Reinvestment Act (ARRA), which was enacted on

February 17, 2009. ARRA provided funding for a number of programs, primarily in the Human Services and Education categories.

Expenditures and other uses totaled $5,391.8 million in fiscal year 2010, an increase of $136.8 million, 2.60%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2009	
	2010	2009	Amount	Percent
General government	$ 552,229	$ 586,628	$ (34,399)	-5.86%
Human services	2,884,419	2,711,167	173,252	6.39%
Education	1,239,074	1,217,271	21,803	1.79%
Public safety	394,860	401,976	(7,116)	-1.77%
Natural resources	67,427	68,932	(1,505)	-2.18%
Debt Service:				
Principal	115,395	102,683	12,712	12.38%
Interest	73,960	67,273	6,687	9.94%
Total expenditures	5,327,364	5,155,930	171,434	3.32%
Other uses	64,448	99,104	(34,656)	-34.97%
Total expenditures and other uses	$ 5,391,812	$ 5,255,034	$ 136,778	2.60%

Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the IST fund was $3.4 million, while the total fund balance was $39.0 million. Total fund balance of the IST fund increased by $3.6 million during the current fiscal year. The primary reason for this was an increase in gasoline taxes and Federal grant revenue.

GARVEE Fund

The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the R.I. 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 $162.2 million, a decrease of $105.9 million. This decrease was caused by significant expenditures for highway and bridge construction that were made this fiscal year from the proceeds of prior year bond issuances.

Bond Capital Fund

The Bond Capital Fund is a capital projects fund that accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund. The fund ended the fiscal year with a fund balance of $139.5 million, an increase of $77.9 million. This increase primarily resulted from the proceeds of new bonds that were issued in the latter part of fiscal year 2010.

General Fund Budgetary Highlights

Prior to FY2009, according to the State's Constitution, general revenue appropriations in the general fund could not exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue was transferred to the State Budget Reserve Account. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the R.I. Capital Plan Fund to be used for capital projects. In FY2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For FY2010 and subsequent years the spending cap decreases by .2% and the reserve limitation increases by .4% each year until FY2013, when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in a decrease of $57.8 million, 1.9%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $113.6 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General revenues		Original Budget vs. Final Budget Change	Percent
Taxes			
Personal Income	$	(44,700)	-4.6%
Public Utilities Gross Earnings		(18,000)	-15.7%
Insurance Companies		16,100	19.7%
Sales and Use		(27,500)	-3.4%
Cigarettes		(8,400)	-5.7%
Other Miscellaneous		25,908	287.9%
Other General Revenue		(1,215)	
Total Change in Estimated Revenue	$	(57,807)	-1.9%
General revenue appropriations			
Department			
Administration	$	(10,736)	-2.5%
Revenue		(2,846)	-7.9%
Legislature		(1,931)	-5.4%
Children, Youth and Families		(6,538)	-4.1%
Elderly Affairs		(2,098)	-21.2%
Health		(2,595)	-8.8%
Human Services		1,887	0.3%
Behavioral Healthcare, Developmental Disabilities and Hospitals		(3,871)	-2.3%
Elementary and Secondary Education		(50,685)	-5.9%
Public Higher Education		(12,098)	-7.0%
Attorney General		(1,465)	-6.9%
Corrections		(6,271)	-3.5%
Judicial		(5,042)	-6.0%
Environmental Management		(3,055)	-8.6%
Other		(6,210)	
Total Change in Appropriations	$	(113,554)	-3.8%

The significant variance of $50.7 million in the general revenue budget of the Department of Elementary and Secondary Education was primarily caused by reductions in local school aid and the State share of teacher retirement contributions. These reductions were partially offset by an increase in ARRA funding for local school districts.

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, 2010, amounts to $3,244.8 million, net of accumulated depreciation of $1,895.0 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 6.0% of net book value. This increase is primarily caused by construction in progress for the building and rehabilitation of roads and other infrastructure as well as a number of significant building projects, as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $324.4 million for the year. Of this amount, $217.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $138.6 million.

State of Rhode Island's Capital Assets as of June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009*	2010	2009	2010	2009*
Capital assets not being depreciated						
Land	$ 348,990	$ 344,042	$ 45,558	$ 45,558	$ 394,548	$ 389,600
Works of Art	422	314			422	314
Intangibles	151,076	145,180			151,076	145,180
Construction in progress	588,133	494,250	649	412	588,782	494,662
Total capital assets not being depreciated	1,088,621	983,786	46,207	45,970	1,134,828	1,029,756
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	582,779	577,823	234,086	233,047	816,865	810,870
Building improvements	210,608	208,342			210,608	208,342
Equipment	235,227	230,558	22,943	22,407	258,170	252,965
Intangibles	11,986	8,428			11,986	8,428
Infrastructure	2,703,672	2,509,729			2,703,672	2,509,729
	3,747,972	3,538,580	257,029	255,454	4,005,001	3,794,034
Less: Accumulated depreciation	1,788,088	1,667,238	106,953	96,142	1,895,041	1,763,380
Total capital assets being depreciated	1,959,884	1,871,342	150,076	159,312	2,109,960	2,030,654
Total capital assets (net)	$ 3,048,505	$ 2,855,128	$ 196,283	$ 205,282	$ 3,244,788	$ 3,060,410

* - The restatement of the FY2009 balance is fully explained in Note 17(F).

At June 30, 2010, the State had a number of significant capital projects in process, including the construction of a new facility for the College of Pharmacy at the University of Rhode Island, relocation of office facilities for the Division of Motor Vehicles, construction of a new school facility for the School for the Deaf, and construction of a new headquarters building for use by the R.I. State Police. The latter three projects were completed in the summer and fall of 2010. Also, the State is investing in new technology to significantly enhance the operations of the Division of Motor Vehicles. In addition, a number of significant highway and bridge improvement projects are underway, including construction of a new Sakonnet River Bridge. Finally, the State has made a significant investment in commuter rail service by expanding service from Providence to Warwick's T.F. Green Airport and plans to further expand service to Wickford Station in Washington County.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,539.0 million of which $1,118.0 million is general obligation debt, $613.3 million is special obligation debt and $807.7 million is debt of the blended component units. Additionally, accreted interest of $13.5 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $15.9 million during the current fiscal year. This increase is the net of an $81.8 million increase in general obligation debt, a decrease of $45.2 million in special obligation debt, and a decrease of $20.7 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $399.5 million and are discussed in Note 6.

During the current fiscal year, the State issued $223.6 million of general obligation bonds, of which $79.0 million were refunding bonds used to defease $78.3 million of outstanding bonds.

The State does not have any debt limitation. Bonds authorized by the voters that remain unissued as of the end of the current fiscal year amounted to $84.6 million; other obligations that are authorized but unissued totaled $416 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2011 Budget

At the November 2010 Revenue Estimating Conference (REC), the enacted FY 2011 estimate of general revenues was revised upward by $16.7 million to $3.037 billion. Of the nineteen general revenue sources that are estimated at the REC, eleven were revised upward from enacted estimates including sales and use and business corporation taxes. The most significant tax category, personal income tax, was revised downward by $1.4 million based on year to date trends.

In addition, the first quarter report for FY 2011 prepared by the Budget Office and issued on November 15, 2010 projects that expenditures will exceed appropriations for a number of programs by $41.6 million. The estimated opening surplus for FY 2011 and the upward revision of the revenue estimate for FY2011, as discussed in the preceding paragraph, help to offset the expenditure overages so that resources available approximately equal planned expenditures.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery. The Lottery's largest source of revenue, video lottery operations, currently competes with Indian gaming casinos in nearby Connecticut. Proposals are sometimes made in Rhode Island, as well as neighboring Massachusetts, to seek approval from the voters to allow other casinos in Rhode Island and Massachusetts. The Lottery's operations may be impacted by competition from future gaming interests that may be developed within Rhode Island or neighboring states. Revenues overall are down at many gaming venues throughout New England due to current economic conditions. Competition among gaming venues has increased, resulting in more promotional allowances and player reward incentives being offered.

Pension and Other Post Employment Benefits

Independent actuarial valuations are conducted of the Employees' Retirement System each year. As part of this valuation, the progress toward funding pension obligations of the System is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status. As reflected in the most recent actuarial valuation (June 30, 2009), the funded ratio decreased to 59.0% for State Employees and 58.1% for Teachers within the Employees' Retirement System plan. The funded ratio for the Judges' plan decreased to 88.3%. The State Police plan's funded ratio increased to 79.8%. The Municipal Employees' Retirement System plan's funded ratio decreased with an overall average ratio of 88.3%.

During fiscal 2011, the Employees' Retirement System will be conducting another periodic experience study. These studies are routinely done to examine the actuarial assumptions underlying the development of the annual actuarial valuations of the plans and compare them to actual experience. As is customary, the experience study will include analysis of the investment rate of return assumption. Any changes in actuarial assumptions resulting from the experience study could affect the unfunded actuarial accrued liability of the plans and future employer contribution rates.

In May 2010, unions representing State employees and teachers filed a lawsuit against the State challenging legislative changes made in 2009 to the pension benefit provisions for State employees and teachers. The lawsuit was later amended to include the 2010 legislative changes made to pension benefits. Management cannot estimate the likelihood of loss to the State, if any, if the plaintiffs prevail. If these challenges to the statutory changes are successful, future State contributions as well as the unfunded actuarial liability could be materially impacted.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2007 has determined the State's unfunded actuarial liability to be approximately $788.2 million. Based on a discount rate of 3.566%, the State and other participating employers' annual required contribution was determined to be $55.8 million, and the actual contribution made was $38.4 million. Consequently, the net Other Post Employment Benefit (OPEB) obligation as of June 30, 2010 increased by $17.4 million to $40.2 million. For fiscal year 2010, the State funded the retiree health care program on a pay as you go basis.

Pursuant to legislation enacted by the General Assembly, the State has established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with OPEB. In addition, effective in fiscal year 2011, all participating employers are required to fully fund the actuarially determined annual required contribution.

Liquidity and Short-term Borrowing

The State sold $350 million of General Obligation Tax Anticipation Notes in July 2010. The notes bear interest at 2.00% and are due on June 30, 2011. The proceeds from these Notes were used to provide working capital. In addition, the General Fund borrows from the R.I. Capital Plan Fund and the R.I. Temporary Disability Insurance Fund to provide short-term working capital. The State is continuing to carefully monitor cash flow in order to insure that there are sufficient resources available to retire these Notes at their maturity date. In addition, 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 and the partial restructuring of the State's disbursement pattern.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Borrowings through November 2010 totaled approximately $225 million. It is expected that additional borrowings will be needed in calendar year 2011. Effective January 1, 2011, the Job Development assessment rate is being increased from .21% to .51% to accumulate funds to begin to repay the balance borrowed.

Funding- American Reinvestment and Recovery Act

Beginning in FY2009, the State received significant additional federal grant revenue under the federal American Reinvestment and Recovery Act (ARRA). For certain programs where costs are shared by the federal and State government (e.g., Medicaid), the State share of program costs was temporarily decreased. This enhanced federal funding is being phased down and is scheduled to end on June 30, 2011. After that date, federal financial participation in the programs will be reduced to pre-ARRA levels. This and other reductions in ARRA funding will result in a gap in the FY2012 budget of approximately $240 million. Measures to address this gap are currently being developed and will be included in the Governor's budget proposal that is submitted to the General Assembly in February 2011.

Local Government Financial Matters

In June 2010, the General Assembly enacted "An Act Providing for the Financial Stability of Cities and Towns" to provide a mechanism for the State to work with cities and towns undergoing financial distress. The Act gives the State, acting through the Department of Revenue, three levels of State oversight and control: fiscal overseer, budget commission, and state receiver. The City of Central Falls is currently under the control of a State appointed executive receiver. The State appointed receiver released his report in December 2010 which includes recommendations to seek merging with a neighboring community and proposals to resolve the City's continued future deficits and severely underfunded pension and OPEB plans.

Economic Factors

The unemployment rate for the State of Rhode Island was 11.6 percent in November 2010, which is a slight decrease from the rate of 11.7 percent during the third quarter of 2009. In their November 2010 forecast, Moody's Economy.com noted that the unemployment rate for Rhode Island may increase slightly in the near future as previously discouraged workers seek to reenter the labor force. The State's unemployment rate compares unfavorably with the U.S. unemployment rate of 9.6 percent as of September 2010. The State's high rate of unemployment is due to at least three factors: the prominent role of the housing sector in the State's economy; the high concentration of blue collar workers as a percent of the State's total labor force; and the small size of the State's economy relative to those of Connecticut, Massachusetts, and the country as a whole.

In their November 2010 forecast, Moody's Economy.com noted that construction in Rhode Island has started to recover and the housing market is showing initial signs of recovery despite a low level of sales. The number of foreclosures, one of the main initial catalysts of the local recession, is starting to decline. Retail sales have also stabilized but remain low relative to pre-recession totals. Rhode Island is expected to begin a slow recovery by the end of the year, although employment growth will lag the U.S. over the course of the recovery.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Peter.Keenan@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2010
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 491,359	$ 19,240	$ 510,599	$ 396,713
Funds on deposit with fiscal agent	249,764	39,676	289,440	
Investments	166		166	25,515
Receivables (net)	462,103	71,504	533,607	226,524
Restricted assets:				
Cash and cash equivalents		13,161	13,161	606,245
Investments	71,895		71,895	269,144
Receivables (net)				14
Other assets				38,720
Due from primary government				16,608
Due from component units	1,473		1,473	355
Internal balances	2,098	(2,098)		
Due from other governments and agencies	243,582	3,189	246,771	2,568
Inventories	1,571	1,191	2,762	10,350
Other assets	78,091	672	78,763	44,011
Total current assets	1,602,102	146,535	1,748,637	1,636,767
Noncurrent assets:				
Investments				131,413
Receivables (net)	18,379		18,379	1,921,085
Due from other governments and agencies	5,120		5,120	
Restricted assets:				
Cash and cash equivalents				135,734
Investments				232,218
Receivables (net)				1,521,595
Other assets				199,252
Due from component units	33,908		33,908	3,427
Capital assets - nondepreciable	1,088,621	46,207	1,134,828	530,672
Capital assets - depreciable (net)	1,959,884	150,076	2,109,960	1,665,302
Other assets	14,477	4,263	18,740	222,753
Total noncurrent assets	3,120,389	200,546	3,320,935	6,563,451
Total assets	4,722,491	347,081	5,069,572	8,200,218
Liabilities				
Current Liabilities:				
Accounts payable	539,994	14,734	554,728	119,015
Due to primary government				1,473
Due to component units	16,608		16,608	355
Due to other governments and agencies		3,210	3,210	212,999
Accrued expenses				78
Deferred revenue	16,467	786	17,253	34,264
Other current liabilities	111,967	3,263	115,230	334,258
Current portion of long-term debt	215,842	8,848	224,690	181,689
Obligation for unpaid prize awards		5,194	5,194	
Total current liabilities	900,878	36,035	936,913	884,131
Noncurrent Liabilities:				
Due to primary government				33,908
Due to other governments and agencies		225,473	225,473	371,130
Net OPEB obligation	36,212	139	36,351	32,897
Deferred revenue		7,500	7,500	7,970
Due to component units				3,427
Notes payable	13,100	607	13,707	1,406
Loans payable				590,817
Obligations under capital leases	228,603		228,603	12,405
Compensated absences	21,288	221	21,509	21,440
Bonds payable	2,483,098	248,634	2,731,732	3,679,407
Other liabilities	66,598	72	66,670	129,229
Total noncurrent liabilities	2,848,899	482,646	3,331,545	4,884,036
Total liabilities	3,749,777	518,681	4,268,458	5,768,167
Net Assets				
Invested in capital assets, net of related debt	2,079,153	(61,806)	2,017,347	1,240,443
Restricted for:				
Budget reserve	112,280		112,280	
Transportation	1,420		1,420	
Debt	90,407	13,161	103,568	373,506
Assistance to Other Entities	73,793		73,793	
Employment insurance program	149,892	(116,183)	33,709	
Other	54,514		54,514	479,403
Nonexpendable-education	1,625		1,625	92,904
Unrestricted	(1,590,370)	(6,772)	(1,597,142)	245,795
Total net assets	$ 972,714	$ (171,600)	$ 801,114	$ 2,432,051

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, 2010

(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 741,329	$ 179,646	$ 108,172	$ 1,003	$ (452,508)	$	$ (452,508)	$
Human services	2,900,673	198,555	1,833,078	4,130	(864,910)		(864,910)	
Education	1,273,985	18,263	264,321	97	(991,304)		(991,304)	
Public safety	418,485	35,272	43,599	2,051	(337,563)		(337,563)	
Natural resources	73,551	29,746	15,944	4,749	(23,112)		(23,112)	
Transportation	305,460	744	96,332	150,060	(58,324)		(58,324)	
Interest and other charges	142,924				(142,924)		(142,924)	
Total governmental activities	5,856,407	462,226	2,361,446	162,090	(2,870,645)		(2,870,645)	
Business-type activities:								
State lottery	2,431,562	2,775,832				344,270	344,270	
Convention center	50,732	23,623				(27,109)	(27,109)	
Employment security	783,878	221,805	418,270			(143,803)	(143,803)	
Total business-type activities	3,266,172	3,021,260	418,270			173,358	173,358	
Total primary government	$ 9,122,579	$ 3,483,486	$ 2,779,716	$ 162,090	(2,870,645)	173,358	(2,697,287)	
Component units:	$ 1,247,087	$ 973,618	$ 75,272	$ 54,467				(143,730)
General Revenues:								
Taxes					2,577,519		2,577,519	
Interest and investment earnings					4,309	164	4,473	30,315
Miscellaneous					91,110	20,224	111,334	29,311
Gain (loss) on sale of capital assets								(332)
Transfers (net)					318,772	(318,772)		
Payments from component units					7,228		7,228	
Payments from primary government								272,008
Total general revenues and transfers					2,998,938	(298,384)	2,700,554	331,302
Change in net assets					128,293	(125,026)	3,267	187,572
Net assets - beginning as restated					844,421	(46,574)	797,847	2,244,479
Net assets - ending					$ 972,714	$ (171,600)	$ 801,114	$ 2,432,051

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, 2010

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 153,730	$ 22,423	$ 167,247	$	$ 117,521	$ 460,921
Funds on deposit with fiscal agent				175,810	73,954	249,764
Investments					166	166
Restricted investments					71,895	71,895
Receivables (net)	417,603	14,484		32	39,789	471,908
Due from other funds	5,586	6,282			2,857	14,725
Due from component units	139					139
Due from other governments and agencies	191,993	51,357	2			243,352
Loans to other funds	12,777				78,648	91,425
Other assets	69,222					69,222
Total assets	$ 851,050	$ 94,546	167,249	$ 175,842	$ 384,830	$ 1,673,517
Liabilities and Fund Balances						
Liabilities						
Accounts payable	454,057	21,719	9,071	9,950	23,586	518,383
Due to other funds			6,280	887	3,300	10,467
Due to component units	7,948	4,487	2,745		1,428	16,608
Loans from other funds	78,646		9,500		817	88,963
Deferred revenue	32,512	18,501				51,013
Other liabilities	89,838	10,845	144	2,850	695	104,372
Total liabilities	663,001	55,552	27,740	13,687	29,826	789,806
Fund Balances						
Reserved for:						
Budget reserve	112,280					112,280
Appropriations carried forward	57,879					57,879
Debt				17,346	73,061	90,407
Transportation capital projects		35,628				35,628
Employment insurance programs					149,892	149,892
Unreserved, reported in:						
General fund	17,890					17,890
Special revenue funds		3,366			43,144	46,510
Capital projects funds			139,509	144,809	87,282	371,600
Permanent fund					1,625	1,625
Total fund balances	188,049	38,994	139,509	162,155	355,004	883,711
Total liabilities and fund balances	$ 851,050	$ 94,546	$ 167,249	$ 175,842	$ 384,830	$ 1,673,517

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, 2010
(Expressed in Thousands)

Fund balance - total governmental funds			$ 883,711
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
	Capital assets	4,830,399	
	Accumulated depreciation	(1,784,671)	
			3,045,728
Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(78,756)	
	Bonds payable	(2,576,485)	
	Net premium/discount and deferred amount on refunding	(28,660)	
	Refunding costs	7,252	
	Cost of issuance	12,037	
	Obligations under capital leases	(244,805)	
	Premium	(6,025)	
	Refunding costs	1,467	
	Cost of issuance	2,440	
	Interest payable	(22,500)	
	Other liabilities	(122,071)	
			(3,056,106)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	7,642	
	Due from component units	35,242	
	Deferred revenue	34,546	
			77,430
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.			21,951
Net assets - total governmental activities			$ 972,714

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, 2010
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,274,447	$ 137,266	$	$	$ 165,693	$ 2,577,406
Licenses, fines, sales, and services	310,505				535	311,040
Departmental restricted revenue	149,638	719				150,357
Federal grants	2,275,606	242,442				2,518,048
Income from investments	285	37	87	34	3,764	4,207
Other revenues	27,066	3,524			48,661	79,251
Total revenues	5,037,547	383,988	87	34	218,653	5,640,309
Expenditures:						
Current:						
General government	552,229				162,632	714,861
Human services	2,884,419					2,884,419
Education	1,239,074				184	1,239,258
Public safety	394,860					394,860
Natural resources	67,427				8	67,435
Transportation		306,672			58	306,730
Capital outlays			30,168	107,356	113,129	250,653
Debt service:						
Principal	115,395	2,568		30,390	14,710	163,063
Interest and other charges	73,960	314	1,369	25,167	38,913	139,723
Total expenditures	5,327,364	309,554	31,537	162,913	329,634	6,161,002
Excess (deficiency) of revenues over (under) expenditures	(289,817)	74,434	(31,450)	(162,879)	(110,981)	(520,693)
Other financing sources (uses):						
Bonds and notes issued			143,765		11,900	155,665
Refunding bonds issued			78,960			78,960
Premium and accrued interest			9,839			9,839
Operating transfers in	450,691	35,530		56,970	42,834	586,025
Payments from component units	7,228					7,228
Other	14,436					14,436
Payment to refunded bonds escrow agent			(84,769)			(84,769)
Operating transfers out	(64,448)	(106,370)	(38,372)		(52,283)	(261,473)
Total other financing sources (uses)	407,907	(70,840)	109,423	56,970	2,451	505,911
Net change in fund balances	118,090	3,594	77,973	(105,909)	(108,530)	(14,782)
Fund balances - beginning (as restated)	69,959	35,400	61,536	268,064	463,534	898,493
Fund balances - ending	$ 188,049	$ 38,994	$ 139,509	$ 162,155	$ 355,004	$ 883,711

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, 2010
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ (14,782)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.			
	Capital outlay	319,509	
	Depreciation expense	(127,096)	
			192,413
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.			
	Principal paid on debt	163,063	
	Debt defeased in refunding	78,290	
	Interest and other charges	(9,976)	
	Proceeds from sale of debt	(234,625)	
	Deferral of premium/discount	(9,838)	
	Amortization of premium/discount	12,268	
	Deferral of issuance costs	548	
	Amortization of issuance costs	(2,209)	
	Deferral of refunding costs	4,030	
	Amortization of refunding costs	(1,384)	
			167
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.			
	Compensated absences	(17,383)	
	Program expenses	(25,271)	
	Program revenue	831	
	Capital grant revenue	5,227	
	General revenue - taxes	113	
	General revenue-misc	(1,969)	
			(38,452)
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.			(11,053)
Change in net assets - total governmental activities			$ 128,293

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, 2010
(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	$ 14,443	$ 2,199	$ 2,598	$ 19,240	$ 30,436
Restricted cash and cash equivalents		13,161		13,161	
Funds on deposit with fiscal agent			39,676	39,676	
Receivables (net)	2,773	1,367	67,364	71,504	6,237
Due from other funds					194
Due from other governments and agencies			3,189	3,189	
Inventories	1,191			1,191	1,575
Other assets	152	520		672	8,918
Total current assets	18,559	17,247	112,827	148,633	47,360
Noncurrent assets:					
Capital assets - nondepreciable		46,207		46,207	
Capital assets - depreciable (net)	691	149,385		150,076	2,773
Other assets		4,263		4,263	
Total noncurrent assets	691	199,855		200,546	2,773
Total assets	19,250	217,102	112,827	349,179	50,133
Liabilities					
Current Liabilities:					
Accounts payable	10,465	4,269		14,734	21,611
Due to other funds	1,771		327	2,098	2,354
Due to other governments and agencies			3,210	3,210	
Loans from other funds					2,462
Deferred revenue	786			786	
Other current liabilities	1,299	1,964		3,263	1,546
Bonds and notes payable		8,848		8,848	
Obligation for unpaid prize awards	5,194			5,194	
Total current liabilities	19,515	15,081	3,537	38,133	27,973
Noncurrent Liabilities:					
Due to other governments and agencies			225,473	225,473	
Deferred revenue	7,500			7,500	
Bonds and notes payable		249,241		249,241	
Compensated absences	221			221	
Net OPEB obligation	139			139	209
Other liabilities		72		72	
Total noncurrent liabilities	7,860	249,313	225,473	482,646	209
Total liabilities	27,375	264,394	229,010	520,779	28,182
Net Assets					
Invested in capital assets, net of related debt	691	(62,497)		(61,806)	2,773
Restricted for:					
Debt		13,161		13,161	
Employment insurance programs			(116,183)	(116,183)	
Unrestricted	(8,816)	2,044		(6,772)	19,178
Total net assets	$ (8,125)	$ (47,292)	$ (116,183)	$ (171,600)	$ 21,951

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, 2010
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 2,775,832	$ 23,343	$ 221,805	$ 3,020,980	$ 299,704
Grants			418,270	418,270	
Miscellaneous		280		280	
Total operating revenues	2,775,832	23,623	640,075	3,439,530	299,704
Operating expenses:					
Personal services	4,728	13,296		18,024	10,346
Supplies, materials, and services	212,149	10,126		222,275	294,484
Prize awards, net of prize recoveries	2,214,438			2,214,438	
Depreciation and amortization	247	11,022		11,269	268
Benefits paid			769,997	769,997	
Total operating expenses	2,431,562	34,444	769,997	3,236,003	305,098
Operating income (loss)	344,270	(10,821)	(129,922)	203,527	(5,394)
Nonoperating revenues (expenses):					
Interest revenue	98	60	6	164	103
Other nonoperating revenue	930		19,294	20,224	18
Interest expense		(16,288)		(16,288)	
Other nonoperating expenses			(13,881)	(13,881)	
Total nonoperating revenue (expenses)	1,028	(16,228)	5,419	(9,781)	121
Income (loss) before transfers	345,298	(27,049)	(124,503)	193,746	(5,273)
Transfers in		24,348	1,813	26,161	
Transfers out	(344,673)		(260)	(344,933)	(5,780)
Change in net assets	625	(2,701)	(122,950)	(125,026)	(11,053)
Total net assets - beginning	(8,750)	(44,591)	6,767	(46,574)	33,004
Total net assets - ending	$ (8,125)	$ (47,292)	$ (116,183)	$ (171,600)	$ 21,951

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, 2010
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	$ 2,781,753	$ 22,438	$ 212,901	$ 3,017,092	$ 302,916
Cash received from grants			417,121	417,121	
Cash payments to suppliers for goods and services	(4,965)	(9,771)		(14,736)	(293,725)
Cash payments to employees for services	(4,568)	(12,914)		(17,482)	(9,987)
Cash payments to prize winners	(2,218,829)			(2,218,829)	
Cash payments for commissions	(205,949)			(205,949)	
Cash payments for benefits			(770,007)	(770,007)	
Other operating revenue (expense)			2,958	2,958	18
Net cash provided by (used for) operating activities	347,442	(247)	(137,027)	210,168	(778)
Cash flows from noncapital financing activities:					
Loan from federal government			150,437	150,437	
Loans from other funds					623
Loans to other funds					(3,090)
Repayment of loans to other funds					1,770
Repayment of loans from other funds					(3,072)
Operating transfers in		25,398	1,813	27,211	27
Operating transfers out	(344,579)		(260)	(344,839)	(5,804)
Net transfers from (to) fiscal agent			(13,418)	(13,418)	
Net cash (used for) noncapital financing activities	(344,579)	25,398	138,572	(180,609)	(9,546)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(7,765)		(7,765)	
Interest paid on capital obligations		(14,984)		(14,984)	
Acquisition of capital assets	(132)	(3,022)		(3,154)	(135)
Net cash provided by (used for) capital and related financing activities	(132)	(25,771)		(25,903)	(135)
Cash flows from investing activities:					
Interest on investments	99	62		161	104
Net cash provided by investing activities	99	62		161	104
Net increase (decrease) in cash and cash equivalents	2,830	(558)	1,545	3,817	(10,355)
Cash and cash equivalents, July 1	11,613	15,918	1,053	28,584	40,791
Cash and cash equivalents, June 30	$ 14,443	$ 15,360	$ 2,598	$ 32,401	$ 30,436
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	344,270	(10,821)	(129,922)	203,527	(5,394)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	247	11,022		11,269	268
Other revenue (expense) and operating transfer in (out)	307		2,510	2,817	18
Net changes in assets and liabilities:					
Receivables, net	1,919	(254)	(9,615)	(7,950)	2,554
Inventory	(453)			(453)	87
Prepaid items		81		81	
Other assets	253			253	
Due to / due from transactions	(13)			(13)	
Accounts and other payables	1,695	657		2,352	1,353
Accrued expenses	212			212	336
Deferred revenue	(152)	(932)		(1,084)	
Prize awards payable	(843)			(843)	
Total adjustments	3,172	10,574	(7,105)	6,641	4,616
Net cash provided by (used for) operating activities	$ 347,442	$ (247)	$ (137,027)	$ 210,168	$ (778)

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, 2010
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 7,065	$	$ 29,593
Deposits held as security for entities doing business in the State			89,788
Receivables			
Contributions	33,074		
Due from state for teachers	23,343		
Miscellaneous	613		1,838
Total receivables	57,030		1,838
Investments, at fair value			
Equity in Pooled Trust	6,512,473		
Other investments		1,821	
Total investments	6,512,473	1,821	
Property and equipment, at cost, net of accumulated depreciation	4,070		
Total assets	6,580,638	1,821	121,219
Liabilities			
Accounts payable	3,163		4,729
Deferred revenue	226		
Net OPEB liability	112		
Deposits held for others			116,490
Total liabilities	3,501		121,219
Net assets held in trust for pension and other benefits	$ 6,577,137	$ 1,821	$

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, 2010
(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 171,327	$
Employer contributions	270,983	
State contributions for teachers	68,543	
Interest on service credits purchased	1,054	
Service credit transfer payments	2	
Total contributions	511,909	
Investment income		
Net appreciation in fair value of investments	752,814	214
Interest	78,722	
Dividends	2,484	44
Other investment income	9,870	1
	843,890	259
Less investment expense	13,053	
Net income from investing activities	830,837	259
Total additions	1,342,746	259
Deductions		
Benefits		
Retirement benefits	618,454	
Cost of living adjustment	164,598	
SRA Plus Option	29,697	
Supplemental benefits	1,105	
Death benefits	3,110	
Total benefits	816,964	
Refund of contributions	9,777	
Administrative expense	7,892	
Service credit transfer payments	2	
Distribution		116
Total deductions	834,635	116
Change in net assets	508,111	143
Net assets held in trust for pension benefits		
Net assets - beginning	6,069,026	1,678
Net assets - ending	$ 6,577,137	$ 1,821

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	RIHMFC	RISLA	RITBA	RIEDC	NBC	RIHEBC	RIRRC
Assets							
Current Assets:							
Cash and cash equivalents	$ 1,802	$ 437	$ 3,200	$ 44,553	$ 13,673	$ 233	$ 18,827
Investments						5,152	
Receivables (net)	1,299	84,847	128	10,115	13,751	795	7,741
Restricted assets:							
Cash and cash equivalents	286,749	277,147	5,332	26,294			
Investments	38,086	15,298	54,635	3,386			
Receivables (net)							
Other assets	28,865		485	8,864			
Due from primary government				1,491			
Due from other governments				1,224	113		
Due from other component units				83			
Inventories			386				3,684
Other assets	1,988	30,887	104	2,067	238	32	498
Total current assets	358,789	408,616	64,270	98,077	27,775	6,212	30,750
Noncurrent Assets:							
Investments	7,062		16,591			750	
Receivables (net)		1,199,686		6,582		1,997	
Restricted assets:							
Cash and cash equivalents				77,091	43,823		658
Investments	212,076			953			1,645
Receivables (net)	1,521,595						
Other assets				32,077			82,375
Capital assets - nondepreciable			1,507	237,773	196,598		15,159
Capital assets - depreciable (net)		1,912	87,935	413,346	476,758	43	36,016
Due from other component units				696			
Other assets, net of amortization	172,753	4,527	1,072	5,616	5,851		14,474
Total noncurrent assets	1,913,486	1,206,125	107,105	774,134	723,030	2,790	150,327
Total assets	2,272,275	1,614,741	171,375	872,211	750,805	9,002	181,077
Liabilities							
Current liabilities:							
Accounts payable		619	2,549	45,171	5,422		7,946
Due to primary government							
Due to other component units		258					
Due to other governments		212,920					
Accrued liabilities							
Deferred revenue		9,176		5,429	274		
Other liabilities	260,535	3,278	2,088	6,332	6,323	160	4,091
Current portion of long-term debt	110,103	5,993	2,270	1,950	18,914		895
Total current liabilities	370,638	232,244	6,907	58,882	30,933	160	12,932
Noncurrent liabilities:							
Due to primary government				8,260			
Due to other governments		371,130					
Due to other component units		2,035					
Deferred revenue	6,301			360			
Notes payable		1,365					
Loans payable				350,629	238,613		
Obligations under capital leases				882	154		
Net OPEB obligation	2,429				121		202
Other liabilities		9,695		4,935			85,947
Compensated absences					70		
Bonds payable	1,607,266	913,609	68,439		152,927		12,856
Total noncurrent liabilities	1,615,996	1,297,834	68,439	365,066	391,885		99,005
Total liabilities	1,986,634	1,530,078	75,346	423,948	422,818	160	111,937
Net assets							
Invested in capital assets, net of related debt	9,120	(135)	66,573	350,511	264,347	43	44,591
Restricted for:							
Debt	229,964	83,613	59,929				
Other				50,165	146		284
Other nonexpendable	2,014						
Unrestricted	44,543	1,185	(30,473)	47,587	63,494	8,799	24,265
Total net assets	$ 285,641	$ 84,663	$ 96,029	$ 448,263	$ 327,987	$ 8,842	$ 69,140

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	RIHEAA	RIPTA	RIIFC	RICWFA	RIIRBA	RIWRBC	RIPTCA
Assets							
Current Assets:							
Cash and cash equivalents	$ 6,556	$ 4,499	$ 512	$ 158,609	$ 3,267	$ 770	$ 213
Investments	13,205	3,778					
Receivables (net)	496	3,079	4	64,207	5	252	514
Restricted assets:							
Cash and cash equivalents				9,446			
Investments				155,844			
Receivables (net)							
Other assets							
Due from primary government		6,541		2,403			
Due from other governments	928						
Due from other component units	258		14				
Inventories		2,760					
Other assets	195	146		7,391		36	44
Total current assets	21,638	20,803	530	397,900	3,272	1,058	771
Noncurrent Assets:							
Investments	4,088					1,163	
Receivables (net)	67			686,300			
Restricted assets:							
Cash and cash equivalents	623		696				
Investments							
Receivables (net)							
Other assets							
Capital assets - nondepreciable	194	40,811			181		820
Capital assets - depreciable (net)	975	73,000		37	353		5,473
Due from other component units	2,035				696		
Other assets, net of amortization				6,963		74	50
Total noncurrent assets	7,982	113,811	696	693,300	1,230	1,237	6,343
Total assets	29,620	134,614	1,226	1,091,200	4,502	2,295	7,114
Liabilities							
Current liabilities:							
Accounts payable	381	6,453	4	459		20	537
Due to primary government		678					39
Due to other component units			42		55		
Due to other governments	79						
Accrued liabilities						78	
Deferred revenue	50	100	22		21		66
Other liabilities	648	6,319	2	26,471		5	84
Current portion of long-term debt				32,030		860	
Total current liabilities	1,158	13,550	70	58,960	76	963	726
Noncurrent liabilities:							
Due to primary government		8,483					
Due to other governments							
Due to other component units			696		696		
Deferred revenue	1,141		95		73		
Notes payable							
Loans payable							
Obligations under capital leases							
Net OPEB obligation	83	17,027					29
Other liabilities	254	7,417		4,209			
Compensated absences	213						214
Bonds payable				643,731		4,089	
Total noncurrent liabilities	1,691	32,927	791	647,940	769	4,089	243
Total liabilities	2,849	46,477	861	706,900	845	5,052	969
Net assets							
Invested in capital assets, net of related debt	1,170	104,650		37	534		6,294
Restricted for:							
Debt							
Other	25,601			358,371		(2,757)	918
Other nonexpendable							
Unrestricted		(16,513)	365	25,892	3,123		(1,067)
Total net assets	$ 26,771	$ 88,137	$ 365	$ 384,300	$ 3,657	$ (2,757)	$ 6,145

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	TCCRI	URI	RIC	CCRI	CFSD	Totals
Assets						
Current Assets:						
Cash and cash equivalents	$ 171	$ 93,268	$ 23,929	$ 20,723	$ 1,471	$ 396,713
Investments	3,380					25,515
Receivables (net)	457	31,653	4,219	2,748	214	226,524
Restricted assets:						
Cash and cash equivalents	4	1,273				606,245
Investments	1,895					269,144
Receivables (net)				14		14
Other assets		506				38,720
Due from primary government					6,173	16,608
Due from other governments					303	2,568
Due from other component units						355
Inventories		2,326	562	632		10,350
Other assets	15	159	5	206		44,011
Total current assets	5,922	129,185	28,715	24,323	8,161	1,636,767
Noncurrent Assets:						
Investments		99,917		1,842		131,413
Receivables (net)		22,069	4,329	55		1,921,085
Restricted assets:						
Cash and cash equivalents		172	10,246	2,425		135,734
Investments			17,544			232,218
Receivables (net)						1,521,595
Other assets		83,331	699	770		199,252
Capital assets - nondepreciable		27,701	4,382	5,546		530,672
Capital assets - depreciable (net)	1	436,750	87,580	41,662	3,461	1,665,302
Due from other component units						3,427
Other assets, net of amortization		11,338	35			222,753
Total noncurrent assets	1	681,278	124,815	52,300	3,461	6,563,451
Total assets	5,923	810,463	153,530	76,623	11,622	8,200,218
Liabilities						
Current liabilities:						
Accounts payable	176	27,432	9,057	7,731	5,058	119,015
Due to primary government			756			1,473
Due to other component units						355
Due to other governments						212,999
Accrued liabilities						78
Deferred revenue	127	14,806	1,816	2,377		34,264
Other liabilities	552	3,249	8,803	5,318		334,258
Current portion of long-term debt		7,719	585	221	149	181,689
Total current liabilities	855	53,206	21,017	15,647	5,207	884,131
Noncurrent liabilities:						
Due to primary government			17,165			33,908
Due to other governments						371,130
Due to other component units						3,427
Deferred revenue						7,970
Notes payable			9	32		1,406
Loans payable		1,575				590,817
Obligations under capital leases		9,757		1,519	93	12,405
Net OPEB obligation		4,104	2,924	1,485	4,493	32,897
Other liabilities		12,725	4,047			129,229
Compensated absences		17,156	2,072	277	1,438	21,440
Bonds payable		252,517	21,873	2,100		3,679,407
Total noncurrent liabilities		297,834	48,090	5,413	6,024	4,884,036
Total liabilities	855	351,040	69,107	21,060	11,231	5,768,167
Net assets						
Invested in capital assets, net of related debt	1	287,723	61,603	40,049	3,332	1,240,443
Restricted for:						
Debt						373,506
Other	1,895	38,782	2,452	2,839	707	479,403
Other nonexpendable		75,914	14,976			92,904
Unrestricted	3,172	57,004	5,392	12,675	(3,648)	245,795
Total net assets	$ 5,068	$ 459,423	$ 84,423	$ 55,563	$ 391	$ 2,432,051

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

(Concluded)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Operating revenues:					
Charges for services	$ 9,961	$	$ 17,217	$ 59,180	$ 71,736
Interest income on loans	87,650	38,868		724	
Investment income (net)	15,121	526			
Other operating income		1,379	745	3,473	38
Total operating revenues	112,732	40,773	17,962	63,377	71,774
Operating expenses:					
Personal services	12,515	3,563	2,687	24,636	18,767
Supplies, materials, and services	4,706	6,383	5,801	17,594	13,936
Interest expense	66,865	18,651			
Grants, scholarships and contract programs	9,335			525	
Depreciation, depletion and amortization	2,526	452	3,758	21,215	9,065
Other operating expenses	7,160	10,818		7,713	1,603
Total operating expenses	103,107	39,867	12,246	71,683	43,371
Operating income (loss)	9,625	906	5,716	(8,306)	28,403
Nonoperating revenues (expenses):					
Interest revenue			1,304	5,545	48
Grants				12,811	280
Payments (to) from primary government				21,192	
Gain (loss) on sale of property				(213)	(15)
Interest expense			(1,058)	(18,144)	(10,820)
Investment income (net)					
Other nonoperating revenue (expenses)		7,916	(36)	(11,241)	259
Total nonoperating revenue (expenses)		7,916	210	9,950	(10,248)
Income (loss) before contributions	9,625	8,822	5,926	1,644	18,155
Capital contributions				17,679	4,906
Change in net assets	9,625	8,822	5,926	19,323	23,061
Total net assets - beginning as restated	276,016	75,841	90,103	428,940	304,926
Total net assets - ending	$ 285,641	$ 84,663	$ 96,029	$ 448,263	$ 327,987

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Operating revenues:					
Charges for services	$ 2,159	$ 45,224	$ 19,602	$ 26,641	$ 62
Interest income on loans	122				
Investment income (net)					
Other operating income		3,560	200	1,055	4
Total operating revenues	2,281	48,784	19,802	27,696	66
Operating expenses:					
Personal services	1,038	11,604	2,714	72,060	
Supplies, materials, and services		18,476	9,108	20,276	130
Interest expense					
Grants, scholarships and contract programs		1,241	12,627		
Depreciation, depletion and amortization	12	11,024		9,484	
Other operating expenses	404	1,063		3,927	12
Total operating expenses	1,454	43,408	24,449	105,747	142
Operating income (loss)	827	5,376	(4,647)	(78,051)	(76)
Nonoperating revenues (expenses):					
Interest revenue	8	1,735	323	42	
Grants			635	21,854	
Payments (to) from primary government	(1,500)		6,612	41,788	
Gain (loss) on sale of property	(2)	10		(198)	
Interest expense		(723)		(387)	
Investment income (net)	(3)				
Other nonoperating revenue (expenses)		3,467	120	3,383	125
Total nonoperating revenue (expenses)	(1,497)	4,489	7,690	66,482	125
Income (loss) before contributions	(670)	9,865	3,043	(11,569)	49
Capital contributions				25,166	
Change in net assets	(670)	9,865	3,043	13,597	49
Total net assets - beginning as restated	9,512	59,275	23,728	74,540	316
Total net assets - ending	$ 8,842	$ 69,140	$ 26,771	$ 88,137	$ 365

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Operating revenues:					
Charges for services	$	$ 176	$ 986	$ 1,650	$
Interest income on loans	16,880				
Investment income (net)	10,391				336
Other operating income	6,455			2,287	836
Total operating revenues	33,726	176	986	3,937	1,172
Operating expenses:					
Personal services	553			3,218	2,138
Supplies, materials, and services		137	31	132	52
Interest expense	28,153				3
Grants, scholarships and contract programs				135	1,156
Depreciation, depletion and amortization	448	15	106	653	7
Other operating expenses	2,879	11		1,596	452
Total operating expenses	32,033	163	137	5,734	3,808
Operating income (loss)	1,693	13	849	(1,797)	(2,636)
Nonoperating revenues (expenses):					
Interest revenue		13	54		
Grants	22,356				2,857
Payments (to) from primary government				1,001	528
Gain (loss) on sale of property					86
Interest expense			(233)	(7)	
Investment income (net)					
Other nonoperating revenue (expenses)			3		
Total nonoperating revenue (expenses)	22,356	13	(176)	994	3,471
Income (loss) before contributions	24,049	26	673	(803)	835
Capital contributions					
Change in net assets	24,049	26	673	(803)	835
Total net assets - beginning as restated	360,251	3,631	(3,430)	6,948	4,233
Total net assets - ending	$ 384,300	$ 3,657	$ (2,757)	$ 6,145	$ 5,068

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	URI	RIC	CCRI	CFSD	Totals
Operating revenues:					
Charges for services	$ 369,911	$ 63,382	$ 32,021	$ 1,151	$ 721,059
Interest income on loans					144,244
Investment income (net)					26,374
Other operating income	3,598	23,578	34,721	12	81,941
Total operating revenues	373,509	86,960	66,742	1,163	973,618
Operating expenses:					
Personal services	259,188	90,496	89,112	43,692	637,981
Supplies, materials, and services	116,384	25,558	9,744	11,050	259,498
Interest expense					113,672
Grants, scholarships and contract programs	20,949	6,019	6,026		58,013
Depreciation, depletion and amortization	22,693	5,528	3,285	259	90,530
Other operating expenses	7,792		136		45,566
Total operating expenses	427,006	127,601	108,303	55,001	1,205,260
Operating income (loss)	(53,497)	(40,641)	(41,561)	(53,838)	(231,642)
Nonoperating revenues (expenses):					
Interest revenue	20,932			7	30,011
Grants		2,229		12,250	75,272
Payments (to) from primary government	79,789	37,654	42,720	42,224	272,008
Gain (loss) on sale of property					(332)
Interest expense	(8,772)	(1,564)	(119)		(41,827)
Investment income (net)	(1,420)	1,525	202		304
Other nonoperating revenue (expenses)	25,164	(418)	569		29,311
Total nonoperating revenue (expenses)	115,693	39,426	43,372	54,481	364,747
Income (loss) before contributions	62,196	(1,215)	1,811	643	133,105
Capital contributions		4,263	2,453		54,467
Change in net assets	62,196	3,048	4,264	643	187,572
Total net assets - beginning as restated	397,227	81,375	51,299	(252)	2,244,479
Total net assets - ending	$ 459,423	$ 84,423	$ 55,563	$ 391	$ 2,432,051

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

(Concluded)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

Rhode Island Convention Center Authority (RICCA)

This authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA)

This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. All remaining obligations of the RIRBA were retired during fiscal 2010. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Investment Officer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Exhibit A-34

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Tobacco Settlement Financing Corporation (TSFC)

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

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Separately issued financial statements are not available for the RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State does not distinguish between major and non-major component units and includes the combining statement for the discretely presented component units as part of the basic financial statements. Discretely presented component units are:

University and Colleges

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

Central Falls School District

The Rhode Island General Assembly passed an act which established the Central Falls School District. This act provided for the State to assume administrative responsibility for the School District effective July 1, 1991. Chapter 16-2 of the R.I. General Laws established a seven member Board of Trustees, which governs the School District and has the powers and duties of a School Committee. 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, or at www.rhodeislandhousing.org.

Rhode Island Student Loan Authority (RISLA)

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

Rhode Island Turnpike and Bridge Authority (RITBA)

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

Rhode Island Economic Development Corporation (RIEDC)

This corporation was created in 1995, and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

Narragansett Bay Commission (NBC)

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

Rhode Island Health and Educational Building Corporation (RIHEBC)

This corporation has the following purposes: (1) to assist in providing financing for education facilities 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 monies of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and, accordingly, have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC)

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

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Rhode Island Higher Education Assistance Authority (RIHEAA)

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

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the 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, or at www.ripta.com.

Rhode Island Industrial Facilities Corporation (RIIFC)

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

Rhode Island Clean Water Finance Agency (RICWFA)

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

Rhode Island Industrial-Recreational Building Authority (RIIRBA)

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

Rhode Island Water Resources Board Corporate (RIWRBC)

This board was created by law to foster and guide the development of water resources, including the establishment of water supply facilities, and to lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 235 Promenade Street, Providence, RI 02908.

Rhode Island Public Telecommunications Authority (RIPTCA)

This authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124, or at www.ripbs.org.

The College Crusade of Rhode Island (TCCRI)

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

C. Financial Statement Presentation

Government-wide Financial Statements

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

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

> **Invested in capital assets, net of related debt -** This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted net assets** – This category represents the portion of net assets whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.
>
> **Unrestricted net assets -** This category represents net assets that do not meet the definition of the two preceding categories. The use of unrestricted net assets is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

State of Rhode Island and Providence Plantations • Notes to Basic Financial Statements • Fiscal Year Ended June 30, 2010

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 and workers' compensation for State employees, industrial prison operations, surplus property, telecommunications and other utilities, and records maintenance.
>
> *Enterprise Funds* **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

> *Pension 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, assets pledged to the State as required by statute, and health insurance for certain retirees.

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

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

Since the activity of the **Intermodal Surface Transportation Fund (IST)** 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.

Major Funds

Governmental funds:

General Fund

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

Intermodal Surface Transportation Fund

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

GARVEE Fund

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

Bond Capital Fund

The Bond Capital Fund accounts for the proceeds of general obligation bonds issued and related capital expenditures not required to be accounted for in another capital projects fund.

Proprietary funds:

State Lottery Fund

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

Rhode Island Convention Center Authority (RICCA)

This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

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

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

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

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

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

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

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets.

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable amounts is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/(To) Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent

Exhibit A-38

flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

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

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5,000	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 asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

Depreciation and amortization is recorded in the government-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.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized by the State. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements, bond discounts, premiums, issuance costs and deferred amounts on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums, deferred amounts on refundings, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(E)).

O. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. In addition, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, 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.

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2010, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*

GASB Statement No. 53 modified note disclosures about derivative instruments reported in the State's fiduciary funds. Due to the fact that the State was already reporting its investment in intangible assets, the adoption of other recently issued accounting standards did not have a significant impact on the State's financial statements and disclosures.

The State will adopt the following new pronouncements in the fiscal year ending June 30, 2011:

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

GASB Statement No. 59 – *Financial Instruments Omnibus.*

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* requires, within the governmental funds, that fund balance be reorganized to include identifications of amounts that are considered nonspendable, such as fund balance associated with inventories and permanent funds. Additional classifications of restricted, committed, assigned and unassigned amounts will be used based on the relative strength of the constraints that control how specific amounts can be spent. Restricted fund balances are those that can only be spent on specific purposes stipulated by constitution, external resource providers or through enabling statute. Committed balances are those that can be used only for actions authorized by the State's highest level of decision-making authority. Assigned balances are to be used for specific purposes, but are not restricted or committed. Unassigned fund balances will only be shown in the General Fund and will be those that are not restricted, committed, or assigned. The effect of implementing this statement will be a reorganization of the fund balance section of the balance sheet for the governmental funds only and additional disclosure in the notes to the basic financial statements.

Statement No.59, *Financial Instruments Omnibus* will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards.

The State will adopt the following new pronouncement in the fiscal year ending June 30, 2012:

> GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* certain provisions are effective for the State's fiscal year ending June 30, 2012.

Management is determining the impact of these new pronouncements on future financial statements.

S. Change in Presentation

The Bond Capital Fund, a capital projects fund, met the criteria of a major fund in fiscal year 2010.

The State has elected to include the combining statements for the discretely presented component units as part of the basic financial statements for fiscal year 2010.

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

A. Primary Government-Governmental and Business Type Activities

Cash Deposits

At June 30, 2010, the carrying amount of the State's cash deposits was $214,973,000 and the bank balance was $246,766,000. The bank balances include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

Several of the financial institutions holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Transaction Account Guarantee Program, which fully guarantees non-interest-bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

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, 2010 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during FY2009. It was further developed into a formal policy, renewable annually, and adopted by the State's Investment Commission in FY2010. Financial institutions are required to pledge collateral equal to 102% of the collected balance of deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk (expressed in thousands) for deposits at June 30, 2010 within the governmental and business type activities:

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Bank balance	$	246,766
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian in the State's name		168,557
Bank balance collateralized by securities held by an independent third party custodian but not in the State's name		67,553
Uninsured and uncollateralized balance	$	10,656

The uninsured or uncollateralized bank balance of $10,656,000 consisted of the uncollected bank balances of the primary government. As of October 2010 the uncollected bank balances of the primary government are also collateralized.

Cash Equivalent Investments and Investments

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Of the State's investments equaling $72,061,000, the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $71,895,000.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

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The State's investments (expressed in thousands) at June 30, 2010 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 17,472	$ 17,472	$ 0	$ 0	$ 0
Money Market Mutual Funds	309,287	309,287	0	0	0
Commercial Paper	52,527	52,527	0	0	0
Repurchase Agreements	1,562	1,562	0	0	0
	380,848	$ 380,848	$ 0	$ 0	$ 0

(166)	Investments
(71,895)	Restricted investments
308,787	Cash equivalents
214,973	Cash deposits
$ 523,760	Total cash and cash equivalents

	Statement of Net Assets
$ 510,599	Cash and cash equivalents
13,161	Restricted cash and cash equivalents
$ 523,760	Total cash and cash equivalents

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2010, information about the State's exposure to credit risk for investments (expressed in thousands) is as follows:

Issuer	Fair Value	Type of Investment	S & P Rating	Average Maturities in Days
US Government Agencies				
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 17,472		AAA	
Money Market Funds				
Black Rock Liquidity Funds: Fed Fund	71,742	Money Market	AAAm	42
Dreyfus Govt Cash Management	13,709	Money Market	AAAm	51
Fidelity Institutional Money Market Funds Gvt. Port Class I	221,773	Money Market	AAAm	25
Goldman Sachs Treasury Investment	2	Money Market	AAAm-G	52
Wells Fargo Advantage 100% Treasury Plus	2,060	Money Market	AAAm	54
Commercial Paper				
Silver Tower US Funding	52,527	Commercial Paper	A-1	
TOTAL	$ 379,285			

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments, including any limitations on credit quality and concentrations of credit risk.

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The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2010 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 64,029	$ 48,433	$ 15,596	$ 0	$ 0
Money Market Mutual Funds	180,975	180,975	0	0	0
Investment Contracts	4,760	4,760	0	0	0
Funds on deposit with fiscal agent	$ 249,764	$ 234,168	$ 15,596	$ 0	$ 0

The above funds on deposit with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	S & P Rating	Average Maturities in Days
US Government Agencies			
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 14,672	AAA	
Federal Home Loan Bank (FHLBank)	42,899	AAA	
Federal National Mortgage Association (Fannie Mae)	6,458	AAA	
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	19,982	AAAm-G	51
Federated Govt. Obligation Tax Managed Fund	26,837	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	128,467	AAAm	25
JP Morgan US Govt. Money Market Fund Agency Class	2,426	AAAm	41
Wells Fargo Advantage 100% Treasury Money Market Fund	3,262	AAAm-G	50
JP Morgan 100% US Treasury Securities Money Market Fund	1	AAAm-G	34
Investment Contracts			
FSA Capital Management GIC	4,760		
TOTAL	$ 249,764		

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows.

Type	Issuer	Amount	Percentage
US Government Agencies	Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 32,144	5.11%
US Government Agencies	Federal Home Loan Bank (FHLBank)	42,899	6.82%
Money Market Funds	Black Rock Liquidity Funds: Fed Fund	71,742	11.40%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	221,773	35.26%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class III	128,467	20.42%
Commercial Paper	Silver Tower US Funding	52,527	8.35%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRTB).

Cash Deposits and Cash Equivalents

At June 30, 2010, the carrying amount of the ERS cash deposits was $4,963,000 and the bank balance was $7,372,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, the entire amount is covered by federal depository insurance and is also fully collateralized.

Cash equivalent type investments consist of money market mutual funds totaling $2,101,003. The money market mutual fund (BlackRock Liquidity Funds: FedFund (Institutional Shares)) is invested in a portfolio of U.S. Treasury bills, notes and obligations guaranteed by the U.S. government and its agencies and instrumentalities and repurchase agreements are fully collateralized by such obligations. The fund was rated AAAm by Standard & Poors and had an average maturity of 42 days at June 30, 2010.

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, 2010. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the ERS. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the ERS, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds assets of the ERS in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust at June 30, 2010 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 13,910
Money Market Mutual Fund	718,501
U.S. Government Securities	497,740
U.S. Government Agency Securities	443,964
Collateralized Mortgage Obligations	22,897
Corporate Bonds	702,459
Domestic Equity Securities	65,997
International Equity Securities	8,796
Commingled Funds - Domestic Equity	2,147,314
Commingled Funds - International Equity	1,094,165
Private Equity	631,263
Real Estate	
Limited Partnership	99,927
Commingled Funds	95,358
Real Estate Investment Trusts	46,687
	$ 6,588,978
Net investment receivable (payable)	(76,505)
Total	$ 6,512,473

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Consistent with a target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined, generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Interest Rate Risk

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2010, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2010 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 497,740	3.66
U.S. Government Agency Securities	443,964	2.78
Collateralized Mortgage Obligations	22,897	3.68
Corporate Bonds	702,459	5.59
Total Fixed Income	$ 1,667,060	4.23

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with an average maturity of 29 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities.

The ERS's exposure to credit risk as of June 30, 2010 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 12,831	$ 443,964	$ 118,586
Aa	1,363		56,023
A	2,882		150,764
Baa	3,068		200,149
Ba	5		61,924
B	2,266		71,098
Caa	415		15,586
Ca			190
C			
D			511
Not rated	67		27,628
Fair Value	$ 22,897	$ 443,964	$ 702,459

(1) Moody's Investors Service

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2010 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 17.50%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2010 (expressed in thousands), was as follows:

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Currency	Commingled Fund	Equities	Private Equity	Total
Australian Dollar	$ 59,494	$	$	$ 59,494
Brazilian Real	38,511			38,511
Canadian Dollar	84,468	250	17,899	102,617
Chilean Peso	3,875			3,875
Colombian Peso	1,967			1,967
Czech Koruna	963			963
Danish Krone	7,580			7,580
Egyptian Pound	1,262			1,262
Euro Currency	218,642		81,279	299,921
Hong Kong Dollar	66,760	4,844		71,604
Hungarian Forint	1,106			1,106
Indian Rupee	21,268			21,268
Indonesian Rupiah	6,079	866		6,945
Israeli Shekel	6,362			6,362
Japanese Yen	171,042			171,042
Malaysian Ringitt	7,475			7,475
Mexican Peso	11,203			11,203
Moroccan Dirham	380			380
New Taiwan Dollar	27,218			27,218
New Zealand Dollar	672			672
Norwegian Krone	5,402			5,402
Philippine Peso	1,221			1,221
Polish Zloty	3,224			3,224
Pound Sterling	153,330			153,330
Singapore Dollar	12,779			12,779
South African Rand	18,365			18,365
South Korean Won	34,244	2,836		37,080
Swedish Krona	21,482		98	21,580
Swiss Franc	59,185			59,185
Thailand Dollar	3,904			3,904
Turkish Lira	4,106			4,106
Total	$ 1,053,569	$ 8,796	$ 99,276	$ 1,161,641
US Dollar	40,596			
Commingled Fund	$ 1,094,165			

Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indexes.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, securities purchased prior to issuance, and short sales. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments and if there is an illiquid secondary market for the contracts.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in the *Interest Rate Risk* section.

Mortgage backed securities of U.S. Government Agencies are also bought and sold in the "to be announced" or TBA market, which performs as a forward or delayed delivery market. The ERS will enter into a forward contract to buy (or sell) mortgage backed securities in the TBA market, promising to purchase (or deliver) mortgage backed securities on a settlement date sometime in the future. The actual security that will be dealt to fulfill a TBA trade is not designated at the time the trade is originated.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

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The following summarize the ERS's exposure to specific derivative investments at June 30, 2010 (expressed in thousands).

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2010	Notional amount
Equity options written	$ 89	$ -	$ -
Fixed income futures - long	12,862	1,544	171,014
Fixed income futures - short	79	-	-
Foreign currency forward contracts	5,151	457	(A)
Index futures - long	16,386	(66)	2,109
Index futures - short	4,965	1,557	58,740
"To-be announced" securities - long	5,878	1,162	118,250
"To-be announced" securities - short	46	(50)	(8,400)
Warrants	(38)	24	325
	$ 45,418	$ 4,628	

(A) - Foreign Curreny Forward Contracts

Pending receivable	$ 42,434
Pending payable	(41,977)
Foreign currency forward contract asset (liability)	$ 457

The ERS is exposed to credit risk on derivative instruments that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2010 was $477,604. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The ERS executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of counterparties for all but 2% (which were unrated) were Aa3 (Moody's) or better.

Securities Lending

At June 30, 2010, the ERS had indirect exposure to securities lending activity through participation in a commingled fund. The commingled fund participates in a securities lending program administered by a related party of the manager of the commingled fund. During fiscal 2009, the commingled fund manager imposed withdrawal restrictions from the commingled fund due to market conditions which adversely impacted its securities lending collateral pool. The restrictions generally limited withdrawals from the lending fund to no more than 4% of the participant balance per month. The State Investment Commission has authorized withdrawals from the lending commingled fund to be reinvested in a similar non-lending commingled fund consistent with the limitations imposed by the commingled fund manager. The ERS's investment at June 30, 2010 in the commingled fund which participates in securities lending activity was $653,366,538. In August 2010, the commingled fund manager removed the withdrawal restrictions and in November 2010, the ERS completed its conversion of units from the lending commingled fund to a similar non-lending commingled fund.

D. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $1,821,000 in the Fidelity Balanced Fund.

E. Agency Funds

At June 30, 2010, the carrying amount of the State's cash deposits within the agency funds was $29,593,000 and the bank balance was $17,793,000. The bank balances include demand deposit accounts and interest-bearing deposit accounts. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

Several of the financial institutions holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Transaction Account Guarantee Program, which fully guarantees non-interest-bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

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, 2010 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during FY2009. It was further developed into a formal policy, renewable annually, and adopted by the State's Investment Commission in FY2010. Financial institutions are required to pledge collateral equal to 102% of the collected balance of deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk for deposits at June 30, 2010 within the agency funds (in thousands):

Bank balance	$ 17,793
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian	17,312
Uninsured and uncollateralized balance	$ 481

Investments (classified as cash equivalents) within the agency funds totaled $11,800,000 and consisted of a money market fund – Fidelity Institutional Money Market Funds–Government Portfolio Class I rated AAAm by Standard and Poors Investors Service with an average maturity of 25 days.

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Note 3. Receivables

Receivables at June 30, 2010 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Due from Other Governments and Agencies	Notes and Loans	Other Receivables	Total
Governmental receivables	$ 388,989	$ 278,039	$ 251,891	$ 1,000	$ 13	$ 919,932
Business-type activity receivables	66,425	20,328				86,753
Less: allowance for uncollectibles	93,140	109,668				202,808
Receivables, net of allowance for uncollectibles	362,274	188,699	251,891	1,000	13	803,877
Less: current portion:						
Governmental activities	289,246	171,844	243,582	1,000	13	705,685
Business-type activities	64,270	7,234	3,189			74,693
Noncurrent receivables	$ 8,758	$ 9,621	$ 5,120	$	$	$ 23,499

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2010 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General	$ 5,586	$
Intermodal Surface Transportation	6,282	
Bond Capital		6,280
GARVEE		887
Other		
Coastal Resources Management Council Dredge	12	
RI Temporary Disability Insurance		870
RI Capital Plan		2,430
RI Clean Water Environmental	1,998	
Certificates of Participation	847	
Total Other	2,857	3,300
Total Governmental	14,725	10,467
Proprietary Funds		
Enterprise		
RI Lottery		1,771
Employment Security Trust		327
Total Enterprise		2,098
Internal Service	194	2,354
Totals	$ 14,919	$ 14,919

In addition, at June 30, 2010, amounts totaling $34.5 million representing employer retirement contributions were recorded in the Employer Pension Contribution Fund (an agency fund) and the General Fund. In the Employer Contribution Fund, $19.1 million was classified as deposits held for others. The remaining $15.4 million was recorded as accounts payable in the General Fund at year-end. These amounts were paid to the Employees' Retirement System in August 2010 and October 2010, respectively.

Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 344,042	$ 5,102	$ (154)	$ 348,990
Works of Art	314	108		422
Intangibles	145,180	5,896		151,076
Construction in progress	494,250	224,400	(130,517)	588,133
Total capital assets not being depreciated or amortized	983,786	235,506	(130,671)	1,088,621
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	577,823	5,668	(712)	582,779
Building Improvements	208,342	2,266		210,608
Furniture and equipment	230,558	11,515	(6,846)	235,227
Intangibles	8,428	3,558		11,986
Infrastructure	2,509,729	193,943		2,703,672
Total capital assets being depreciated or amortized	3,538,580	216,950	(7,558)	3,747,972
Less accumulated depreciation or amortization for:				
Land improvements	3,077	157		3,234
Buildings **	177,813	11,596	(349)	189,060
Building Improvements **	152,017	7,455		159,472
Furniture and equipment	188,272	18,097	(6,165)	200,204
Intangibles	4,783	1,831		6,614
Infrastructure	1,141,276	88,228		1,229,504
Total accumulated depreciation or amortization	1,667,238	127,364	(6,514)	1,788,088
Total capital assets being depreciated or amortized, net	1,871,342	89,586	(1,044)	1,959,884
Governmental activities capital assets, net	$ 2,855,128	$ 325,092	$ (131,715)	$ 3,048,505

* Beginning balances have been restated, see Note 17, Section F.

** Certain beginning balances have been reclassified by category.

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

General government	$ 8,975
Human services	7,914
Education	2,807
Public safety	11,663
Natural resources	3,570
Transportation	92,435
Total depreciation or amortization expense - governmental activities	$ 127,364

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Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	412	1,602	(1,365)	649
Total capital assets not being depreciated	45,970	1,602	(1,365)	46,207
Capital assets being depreciated:				
Buildings	233,047	1,094	(55)	234,086
Machinery and equipment	22,407	892	(356)	22,943
Total capital assets being depreciated	255,454	1,986	(411)	257,029
Less accumulated depreciation	96,142	11,219	(408)	106,953
Total capital assets being depreciated, net	159,312	(9,233)	(3)	150,076
Business-type activities capital assets, net	$ 205,282	$ (7,631)	$ (1,368)	$ 196,283

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 107,782	$ 5,730	$ (956)	$ 112,556
Construction in progress	561,764	170,543	(314,441)	417,866
Other	250			250
Total capital assets not being depreciated or amortized	669,796	176,273	(315,397)	530,672
Capital assets being depreciated or amortized:				
Buildings	1,492,513	44,943	(4,411)	1,533,045
Land improvements	178,530	5,178		183,708
Machinery and equipment	303,871	26,014	(16,016)	313,869
Intangibles	4,100			4,100
Infrastructure	375,194	267,789		642,983
Total capital assets being depreciated or amortized	2,354,208	343,924	(20,427)	2,677,705
Less accumulated depreciation or amortization for:				
Buildings	550,687	51,773	(4,575)	597,885
Land improvements	102,409	8,260		110,669
Machinery and equipment	196,162	16,950	(15,060)	198,052
Intangibles	1,435	820		2,255
Infrastructure	93,879	9,663		103,542
Total accumulated depreciation or amortization	944,572	87,466	(19,635)	1,012,403
Total capital assets being depreciated or amortized, net	1,409,636	256,458	(792)	1,665,302
Total capital assets, net	$ 2,079,432	$ 432,731	$ (316,189)	$ 2,195,974

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are presented in the following table.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,036,189	$ 223,625	$ (141,784)	$ 1,118,030	$ 68,630	$ 1,049,400
RIEDC Grant Anticipation Bonds	427,425		(26,910)	400,515	28,205	372,310
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	81,125		(3,480)	77,645	3,585	74,060
Revenue bonds - RIRBA	6,040		(6,040)			
Tobacco Settlement Asset-Backed Bonds	822,441		(14,710)	807,731		807,731
Accreted interest on TSFC bonds	23,877	13,492		37,369		37,369
Historic Tax Credit Bonds	150,000		(14,805)	135,195	14,375	120,820
Net unamortized premium/discount	30,004	9,838	(11,182)	28,660		28,660
Deferred amount on refunding	(4,315)	(4,030)	1,093	(7,252)		(7,252)
Bonds Payable, net	2,572,786	242,925	(217,818)	2,597,893	114,795	2,483,098
Obligation under capital leases (see section E)						
Obligation under capital leases	269,340		(24,535)	244,805	20,760	224,045
Net unamortized premium/discount	7,111		(1,086)	6,025		6,025
Deferred amount on refunding	(1,758)		291	(1,467)		(1,467)
Obligation under capital leases, net	274,693		(25,330)	249,363	20,760	228,603
Compensated absences	62,004	68,459	(50,161)	80,302	59,014	21,288
Net OPEB Obligation (see note 14 C)	20,725	15,487		36,212		36,212
Special obligation notes	13,179	11,000	(4,729)	19,450	6,350	13,100
Other Long-term liabilities						
Arbitrage rebate	3,398	442	(1,184)	2,656	2,420	236
Pollution remediation	17,131	4,271	(1,281)	20,121	5,706	14,415
Other	51,480	25,144	(17,880)	58,744	6,797	51,947
Total Governmental Long-term Liabilities	$ 3,015,396	$ 367,728	$ (318,383)	$ 3,064,741	$ 215,842	$ 2,848,899
Business-type Activities						
Revenue bonds (see section B)	$ 275,810	$	$ (7,530)	$ 268,280	$ 8,660	$ 259,620
Net unamortized premium/discount	1,212		(116)	1,096		1,096
Deferred amount on refunding	(13,318)		1,236	(12,082)		(12,082)
Revenue bonds, net	263,704		(6,410)	257,294	8,660	248,634
Notes payable	1,030		(235)	795	188	607
Due to Other Governments and Agencies	70,000	155,473		225,473		225,473
Total Business-type Long-term Liabilities	$ 334,734	$ 155,473	$ (6,645)	$ 483,562	$ 8,848	$ 474,714
Component Units						
Bonds payable (see section B)	$ 3,949,789	$ 552,515	$ (407,417)	$ 4,094,887	$ 94,890	$ 3,999,997
Net unamortized premium/discount	25,383	13,462	(3,815)	35,030	11	35,019
Deferred amount on refunding	(9,016)	(4,679)	902	(12,793)		(12,793)
Notes payable (see section C)	75,815	259,000	(254,490)	80,325	75,874	4,451
Loans payable (see section D)	278,224	74,290	(22,249)	330,265	16,971	313,294
Obligations under capital leases	15,043	926	(2,049)	13,920	2,020	11,900
Net OPEB obligation	22,784	10,637	(1,164)	32,257		32,257
Compensated absences	30,688	5,933	(3,734)	32,887	11,447	21,440
Arbitrage rebate	17,819	1,856	(4,904)	14,771	868	13,903
Due to primary government	36,687	1,222	(2,567)	35,342	1,434	33,908
Pollution remediation	17,729		(1,444)	16,285		16,285
Other liabilities	95,689	1,036	(755)	95,970	594	95,376
Total Component Units Long-term Liabilities	$ 4,556,634	$ 916,198	$ (703,686)	$ 4,769,146	$ 204,109	$ 4,565,037

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B. Bonds Payable

At June 30, 2010, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities Principal	Governmental Activities Interest	Business Type Activities Principal	Business Type Activities Interest	Component Units Principal	Component Units Interest
2011	$ 114,795	$ 119,355	$ 8,660	$ 14,470	$ 169,875	$ 151,680
2012	121,360	115,553	9,110	14,030	104,841	147,997
2013	146,480	109,433	9,570	13,565	127,760	143,530
2014	128,775	103,016	10,060	13,075	117,482	138,537
2015	138,585	96,804	10,550	12,535	133,379	133,443
2016 - 2020	630,165	384,044	61,305	54,019	663,455	585,307
2021 - 2025	393,330	252,707	78,625	36,521	637,191	427,671
2026 - 2030	128,660	182,976	51,355	15,354	619,450	283,410
2031 - 2035	168,260	136,768	29,045	5,487	644,840	160,386
2036 - 2040		116,156			614,310	60,900
2041 - 2045	371,700	46,463			276,890	17,221
2046 - 2050					65,145	2,906
2051 - 2055	197,006	2,834,180 *				
	$ 2,539,116	$ 4,497,455	$ 268,280	$ 179,056	$ 4,174,618	$ 2,252,988

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually. During the year ended June 30, 2010 the State issued the following general obligation bonds:

- $78,960,000 Consolidated Capital Development Loan of 2010, Refunding Series A, with interest rates ranging from 2.500% to 5.00%, maturing from 2012 through 2021. The proceeds were used to effect an advance refunding of $78,290,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 11 years by $2,496,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,993,000.

- $40,865,000 Consolidated Capital Development Loan of 2010, Series B, with interest rates ranging from 2.00% to 5.00%, maturing from 2011 through 2025.

- $80,000,000 Capital Development Loan of 2010, Series C, with interest rates ranging from 4.663% to 5.363%, maturing from 2021 through 2025. These bonds are federally taxable as they are Issuer Subsidy-Recovery Zone Economic Development bonds. The State will receive a cash subsidy for interest from the federal government instead of tax credits accruing to purchasers of bonds. The State will be entitled to a subsidy equal to 45% of all interest payable on the bonds, based on required filings to the United States Treasury from the State. The State is obligated for all debt service of these bonds, regardless of whether subsidy payments are received or not.

- $23,800,000 Capital Development Loan of 2010, Series D, with interest rates ranging from 0.962% to 4.627%, maturing from 2011 through 2020. These bonds are federally taxable.

At June 30, 2010, general obligation bonds authorized by the voters and unissued amounted to $84,600,000. 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.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects.

Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2010, TSFC utilized $14,710,000 of excess collections to early redeem an equal amount of outstanding bonds.

Historic Tax Credit Bonds - In FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits redeemed in FY2009 and the following two fiscal years. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years; (1) Energy Conservation Certificates of Participation - $85,270,000, and (2) Economic Development Corporation – Fund to Grow Rhode Island Companies - $125,000,000 ($75,000,000 issued subsequently to June 30, 2010 – see Note 18. Subsequent Events).

Primary Government - Business-Type Activities

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2010, outstanding bond and note indebtedness totaled $269,075,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

Exhibit A-47

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2010, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and Community College of Rhode Island

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

R.I. Housing and Mortgage Finance Corporation

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

R.I. Student Loan Authority

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.

R.I. Economic Development Corporation

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

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC), has pledged net revenues derived from the operation by RIAC of the Airport and Certain Outlying Airports to repay $270,910,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $34,252,000 for the year ended June 30, 2010. Principal and interest payments for the year ended June 30, 2010 were approximately $21,487,000.

RIAC has pledged facility revenues related to the intermodal facility, net of specified operating expenses, to repay $48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds are being used for the construction of the intermodal facility. Facility revenues, including customer facility charges, were $4,758,000 for the year ended June 30, 2010. Interest paid for the year ended June 30, 2010 was approximately $2,418,000. Principal payments commence on July 1, 2011.

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to

$42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2011. 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 2011 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2010, RIAC had $5,109,000 in borrowings under this agreement.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has issued a number of series of revenue bonds to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of Claiborne Pell Bridge and the Mount Hope Bridge.

Narragansett Bay Commission

The Narragansett Bay Commission has issued a number of series of revenue bonds to finance the construction and renovation of its treatment facilities and waste water collection systems.

R.I. Clean Water Finance Agency

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.

On May 6, 2010, the Agency issued the 2010 Series A Water Pollution Control Subordinated Refunding Revenue Bonds. The proceeds from this bond issue were used to defease portions of the 1995 Series A, 1999 Series A, 1999 Series C, 2000 Series A, 2002 Series A, 2002 Series B, 2003 Series B, and to fully refund the 1999 Series B Bonds. Upon delivery of the 2010 Series A Subordinated Refunding Bonds, the agency established an irrevocable escrow trust fund pursuant to a Refunding Trust Agreement between the Agency and U.S. Bank National Association. Under the terms of the Refunding Trust Agreement, the proceeds of the 2010 Series A Subordinated Refunding Bonds were deposited into escrow funds, established for each series of Refunded Bonds, which were invested in Investment Obligations maturing in amounts and bearing interest at rates sufficient to pay, when due, interest, and upon maturity or prior redemption on the earliest available redemption date, the outstanding principal of the Refunded Bonds. Each escrow fund is pledged solely for the benefit of holders of the applicable series of Refunded Bonds.

Since those bonds have, in effect, been redeemed under the defeasance, they are no longer outstanding under the Agency's basic bond resolution and, therefore, they are not entitled to the pledge of the basic bond resolution. Accordingly, these bonds and the related escrow funds are not reflected in the June 30, 2010 financial statements.

The Agency completed the advance refunding to reduce its total debt service payments over the next 14 years by $6,354,832 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $5,251,498.

R.I. Water Resources Board Corporate

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.

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R.I. Industrial-Recreational Building Authority

The $60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2010 are as follows:

Note payable to R.I. Housing and Mortgage Finance Corporation - to provide financing for various affordable housing initiatives	$ 8,450
Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2011-2017	11,000
	$ 19,450

Both special obligation notes are subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2010 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.	$ 1,696
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	24,048
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	2,048
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	533
	28,325
Less: current payable	(26,919)
	$ 1,406

D. Loans Payable

Discretely Presented Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $323,193,116.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2010 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010:

Fiscal Year Ending June 30		COPS
2011	$	31,774
2012		30,525
2013		29,465
2014		27,827
2015		27,153
2016 - 2020		104,571
2021 - 2025		66,315
2026 - 2030		9,929
Total future minimum lease payments		327,559
Amount representing interest		(82,754)
Present value of future minimum lease payments	$	244,805

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2010, the following bonds outstanding (expressed in thousands) are considered defeased:

		Amount
Primary government:		
General Obligation Bonds	$	224,010
Certificates of Participation		18,800
R.I. Convention Center Authority		30,975
Component Units:		
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)		248,440
R.I. Economic Development Corporation		55,980
R.I. Turnpike and Bridge Authority		32,300

G. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2010 was $113,500,000, $2,744,709,000 and $1,147,000,000 respectively. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. Short-Term Borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2010:

		Balance July 1, 2009		Additions		Reductions		Balance June 30, 2010
General Obligation Tax Anticipation Notes	$	0	$	350,000	$	350,000	$	0
RI Capital Plan Fund		101,948		39,700		63,000		78,648
Total Short Term Borrowing	$	101,948	$	389,700	$	413,000	$	78,648

All of the borrowings were used to provide short term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $52,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.262% to 2.099%.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State has borrowed $225,473,000 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest on the borrowings were deferred through June 30, 2010; however, interest will accrue beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from the State's UI Trust Fund or UI grant funds. As a result, the General Assembly passed legislation which added 0.3% to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans.

K. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. 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.

L. Arbitrage Rebate

The State and certain component units have a liability for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

M. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.

- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers not expected to be paid in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category.

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $483,931,000 of restricted net assets, of which $204,406,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

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Governmental Funds – 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.

General Fund Reserved Fund Balances and Changes in General Fund Reserved Fund Balances are detailed below (expressed in thousands):

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 80,145	$ 70,913	$ (38,778)	$ 112,280
Appropriations carried forward				
General revenue	998	3,365	(998)	3,365
Departmental restricted revenue	49,543	52,044	(49,543)	52,044
Other	1,559	2,470	(1,559)	2,470
Total	$ 132,245	$ 128,792	$ (90,878)	$ 170,159

The State maintains a State Budget Reserve and Cash Stabilization Account in the General Fund. For fiscal year 2010, 2.40% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3.80% of the total general revenues and opening surplus are transferred to the R.I. Capital Plan Fund to be used for capital projects. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Reserved fund balances in the governmental funds (other than the General Fund) principally represent amounts committed for transportation projects, future debt service, and employment insurance programs.

Unreserved fund balances in the governmental funds (other than the general fund) principally represent unspent debt proceeds for capital outlay or debt service expenditures associated with capital projects.

Note 8. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 879,007	$ 879,012
General Business Taxes:		
Business Corporations	146,166	145,929
Public Utilities Gross Earnings	95,794	96,894
Financial Institutions	2,130	1,950
Insurance Companies	69,460	69,346
Bank Deposits	1,860	1,860
Health Care Provider Assessment	40,254	40,202
Sub-total - General Business Taxes	355,664	356,181
Sales and Use Taxes:		
Sales and Use	803,395	803,292
Motor Vehicle	48,285	48,284
Motor Fuel	969	954
Cigarettes	138,315	138,286
Alcoholic	11,269	11,269
Sub-total - Sales and Use Taxes	1,002,233	1,002,085
Other Taxes:		
Inheritance and Gift	29,057	28,796
Racing and Athletics	1,492	1,492
Realty Transfer	6,994	6,994
Sub-total - Other Taxes	37,543	37,282
Total - General Fund	2,274,447	2,274,560
Intermodal Surface Transportation Fund		
Gasoline	137,266	137,266
Other Governmental Funds	165,693	165,693
Total Taxes	$ 2,577,406	$ 2,577,519

Exhibit A-51

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Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2010 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 49,399	Debt service and operating assistance
Bond Capital	109	Interest earnings transfer
Nonmajor Funds		
RI Temporary Disability Insurance	1,973	Administrative cost reimbursement
Historic Tax Credit	50,198	Reimbursement for tax credits claimed
RI Capital Plan	112	Transfer of remaining appropriations to RICAP Fund
Business-Type Activities		
Lottery	344,673	Net income transfer
Employment Security	260	Administrative cost reimbursement
Internal Service	3,967	Charges for Information Technology Services and equity transfer from Vehicle Replacement Fund
Intermodal Surface Transportation		
Bond Capital	35,530	Infrastructure funding
GARVEE		
Intermodal Surface Transportation	56,970	Debt Service
Nonmajor Funds		
COPs		
General	1,322	Debt service reserve
RI Capital Plan		
General	38,778	Transfer statutory excess in budget reserve
Bond Capital	2,734	Premium on new bonds
Total Governmental Activities	586,025	
Business-Type Activities		
Convention Center		
General	24,348	Debt service
Employment Security		
Assessed Fringe Benefits	1,813	Reimbursement for State employees' unemployment compensation
Total operating transfers	$ 612,186	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,630,000 for the fiscal year ended June 30, 2010.

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, 2010:

Fiscal Year Ending June 30	
2011	$ 10,854
2012	8,755
2013	7,212
2014	7,025
2015	6,988
2016 - 2020	11,253
Total	$ 52,087

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2010 are listed below (expressed in thousands):

Major funds		
General	$	10,017
Bond Capital		1,711
IST		305,399
GARVEE		126,664
Total major funds		443,791
Other governmental funds		8,378
Total encumbrances outstanding	$	452,169

The primary government is committed at June 30, 2010 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, 2010 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, 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. In the year ended June 30, 2010, $3,560,000 was paid to the developer.

The RIEDC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $2,532,526 of the debt on the related economic development revenue bonds in fiscal year 2010.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

Video Lottery Facilities – UTGR, Inc.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. Under the contract, 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. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

In May 2010, legislation was enacted which authorized the Lottery to amend its Master Contract with UTGR and which satisfied certain requirements of UTGR's corporate reorganization. The legislation provides for a promotional points program up to 4% of the facility's prior year net terminal income. The legislation also requires the Lottery, beginning in fiscal 2011, to reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (approximately 61% for fiscal 2010). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (as defined by the Lottery) and is contingent on the State receiving net terminal income from UTGR at least equal to fiscal year 2009 amounts. UTGR gave notice of its intent to extend the contract, and the first five-year extension term of the Lottery's contract with UTGR commenced on July 18, 2010.

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. In May 2010, legislation was enacted that authorized the Lottery to amend its Master Contract with Newport Grand to include two (2) successive five (5) year extension terms, with the first term commencing on November 23, 2010. On September 21, 2010, Newport Grand gave notice of its intent to extend the contract, and the first five-year extension term of the contract will commence on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates.

The legislation also provides for a promotional points program up to 4% of the facility's prior year net terminal income and requires the Lottery, beginning in fiscal 2011, to reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (approximately 63% for fiscal 2010). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (as defined by the Lottery) and is contingent on the State receiving net terminal income from Newport Grand at least equal to fiscal year 2010 amounts.

Component Units

R. I. Public Rail Corporation

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of $7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining a liability insurance policy to provide funds to pay all or a portion of the liabilities of the State and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $7,394,000, which are expected to be funded from current available resources and future operations. As of June 30, 2010, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $59,328,000.

Narragansett Bay Commission

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 $56,053,000 at June 30, 2010.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into five distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV is still accepting waste, portions of Phase IV have been capped, with final capping expected during fiscal year 2012. In 2005, the Corporation began landfilling in Phase V.

A liability for closure and post-closure care of $71,439,011 as of June 30, 2010 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2010
Phase I	$ 18,724,443
Phase II and III	6,387,138
Phase IV	11,994,270
Phase V	34,333,160
	$ 71,439,011

The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for licensure of Phase VI to RIDEM and is currently awaiting RIDEM's approval.

The Corporation expects to record an estimated additional $82,000,000 of closure and post-closure care costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

As of June 30, 2010, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense for Phase IV, and the estimated percent of landfill capacity used for Phase IV, are $1,414,304 and 89.5%, respectively. The corresponding amounts for Phase V are $17,237,607 and 66.6%, respectively. Estimated remaining years for accepting waste is less than one year for Phase IV and 4.5 years for Phase V.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets held in trust in the accompanying statements of net assets as of June 30, 2010 is $40,775,182 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

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The pollution remediation obligation for the year ended June 30, 2010 is as follows:

Balance, June 30, 2009	Additions	Reductions	Balance, June 30, 2010	Current Portion
$ 19,817,040	$ 167,668	$ (1,385,565)	$ 18,599,143	$ 2,313,623

Superfund site:

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The balance of the trust fund totaled $41,599,897 as of June 30, 2010 and has been included in restricted assets held in trust in the accompanying statement of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately $17,431,000 as of June 30, 2010.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for development. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately $1,168,000 as of June 30, 2010.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the Corporation. As of June 30, 2010 the escrow account totaled approximately $156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into a contract for improvements to bridges and property. At June 30, 2010 the remaining commitments on this contract are approximately $41,363,000.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $46,239,624 at June 30, 2010.

R.I. Higher Education Assistance Authority

Under an agreement with AllianceBernstein L.P., the R.I. Higher Education Assistance Authority (RIHEAA) receives account maintenance, direct commission, and other fees derived principally from non-Rhode Island participants in CollegeBoundfund®, Rhode Island's IRS section 529 college savings program.

During FY 2010, these revenues totaled approximately $6,000,000. In addition, RIHEAA receives $250,000 annually (in quarterly installments) directly from AllianceBernstein. During FY 2002, RIHEAA established two scholarship and grant programs which are funded with the revenues generated from CollegeBoundfund®. Those programs are:

- The Academic Promise Scholarship Program: approximately $1,000,000 is available annually through RIHEAA 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.

- The CollegeBoundfund® Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA in CollegeBoundfund® as matching contribution amounts for individuals' accounts established for the benefit of income-qualifying students and their families.

In addition, CollegeBoundfund® revenues also support the Adult Education Grant Program, which provides up to $6,000 to academic and income-qualifying students enrolled on a less than half-time basis over a two year scholarship period.

During FY 2010, RIHEAA invested $1,000,000 to be used for Academic Promise Scholarship Program recipients and provided over $4,800,000 in supplemental funding for the State Scholarship/Grant Program.

R.I. Industrial-Recreational Building Authority

At June 30, 2010, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2010 are $18,143,189.

Other Component Units

Other component units have various commitments that have been entered into in the normal course of their operations. These commitments are not significant to the State's financial statements.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Specific litigation matters are discussed below.

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, proceeded before an administrative hearing officer to present evidence in support of this claim. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several grounds. That motion was granted and the matter was dismissed by the Commissioner on January 21, 2010. The School Committee appealed to the Board of Regents and filed a brief with the Regents on February 17, 2010. RIDE submitted a reply brief in this matter. The Board of Regents affirmed the dismissal. The Cranston School Department has filed both an Administrative Procedures Act appeal, PC10-4288, and a Petition for Writ of Mandamus, PC10-3837, in the Superior Court on the basis of these same claims.

Also, a claim was made by the Chariho Regional School Committee for reimbursement for salaries of the director and guidance counselors at the Chariho Career and Technical Center. The School Committee contends that it is owed the amounts it paid for salaries of its director and guidance counselors from 1990-

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present, a total of $4,142,893 based on the language in the Regulations of the Board of Regents Governing the Management & Operation of Area Vocational-Technical Centers in Rhode Island. The Department of Elementary and Secondary Education has filed a Motion to Dismiss this Claim, to which Chariho filed an Objection on December 30, 2009. The Department's defenses to this claim are sound; however, a full assessment of the likelihood of an unfavorable outcome cannot be made at this time.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The City of Providence requested a hearing and disputes the findings of the Department. Based on settlement discussions with the City of Providence, the amount due is $9,450,266. The General Assembly enacted legislation in the 2009 session (G.L. 16-7-44.2) that calls for the repayment to be spread over a number of years calculated by dividing the total amount of the overpayment by the total amount of revenues and deducted the calculated amount from Providence's FY 2009 general education aid. The calculation results in Providence's overpayment being spread over 7 years, or $1,350,038 per year. This reduction will continue through FY 2015.

In November of 2004, a labor arbitrator ordered payment to deputy sheriffs for missed overtime opportunities. The State appealed and the Superior Court vacated the arbitration award. The union appealed that ruling and the Supreme Court re-instated the arbitration award. The overtime bypass occurred over a period from 2002 to 2007 and amounts to more than 13,000 hours. Because the parties disagreed about which deputies were qualified to share in the reimbursement for the overtime, the arbitrator conducted further hearings at which almost 100 deputies testified regarding their qualifications to perform the extradition work at issue. The arbitrator recently ruled that 59 deputies were qualified to share in the remedy payments. Each qualified deputy is due payment for some portion of the remedy period, but the dates of each deputy's eligibility are different, and each deputy had different overtime rates of pay at different times within their remedy period. The calculation of the individual payments is therefore complicated and time-consuming, but it appears that the total payout amount will be significant and could well exceed $100,000.

In May 2010, unions representing State employees and teachers filed a lawsuit against the State challenging legislative changes made in 2009 to the pension benefit provisions for state employees and teachers. The lawsuit was later amended to include the 2010 legislative changes made to pension benefits. Management cannot estimate the likelihood of loss to the State, if any, if the plaintiffs prevail. If these challenges to the statutory changes are successful, future State contributions as well as the unfunded actuarial liability could be materially impacted.

With respect to other litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Tobacco Settlement Financing Corporation

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

From April 2005 through April 2010, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for non-participating manufacturers. The Corporation's share of these disputed payments is approximately $23,909,000. However, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

On January 31, 2006 the Corporation received a subpoena requesting the production of documents and information relative to the SEC's investigation of "Certain GIC Brokers." The Corporation responded to this request on a timely basis. On April 17, 2008, the Corporation received a subpoena from the US Department of Justice for the production of documents. The Corporation responded to this request on a timely basis and has not received any further notices or communications from the Department of Justice regarding this matter.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2009 was issued in May 2010. That report identified approximately $11.8 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2010 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2010, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $267,259,100 and $38,554,285 respectively, in "moral obligation" bonds outstanding.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority maintains Letters of Credit in the original stated amount of $104,888,356 on its November 2008 Series B Weekly Adjustable Interest 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 become 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 as contemplated by the indenture.

The Letters of Credit will expire on the earliest to occur: (a) June 30, 2012, (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, (f) when no amount becomes available to the Trustee under the Letter of Credit.

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R.I. Higher Education Assistance Authority (RIHEAA) and R.I. Student Loan Authority (RISLA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act makes sweeping changes in student financial assistance programs, including a provision which eliminates loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, all new guaranteed student loans will be originated under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constitutes its single largest activity, and approximately 75% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations will have a significant impact on the Authorities' ongoing operations.

Management continues to evaluate the impact of the Act. RISLA will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. RIHEAA believes it is difficult to predict the time period over which such services would be required, and to what extent these responsibilities would constitute a substantive activity for the Authority. RIHEAA currently anticipates that the period would be in the range of three to five years.

Due to the fact that all federally guaranteed student loans will be originated under the Federal Direct Loan Program, RISLA will no longer originate new federal Stafford or Plus loans. RISLA will continue to hold and administer its $705 million portfolio of federally guaranteed Stafford, Plus, and Consolidation loans, SAFRA may provide not for profit state based organizations like RISLA the opportunity to service Direct Student loans on behalf of the US Department of Education. RISLA's management is analyzing the possibility of Direct Loan servicing.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2010, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in October 2011 and up to a maximum of $19,500,000 under an additional revolving loan agreement expiring in May 2011 and up to a maximum of $15,000,000 under an additional revolving loan agreement expiring in December 2010.

The Corporation is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2010 is $43,130,133.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans

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and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

Short-term investments are generally carried at cost which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, real estate funds and an EFT (exchange traded fund) commodity fund. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The ERS also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the ERS investments.

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 9.7% and 3.7%, respectively of the total reported fair value of all ERSRI investments at June 30, 2010. Of the underlying holdings within private equity investments, approximately 10% were valued based on quoted market prices. The remaining underlying

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assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.78%	26.03%	16.19%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.32 and 7.76%		
Annual pension cost	$192,091	$3,591	$1,181
Contributions made - state employees	$123,548	$3,591	$1,181
Contributions made - teachers	$68,543		
Actuarial valuation date	June 30, 2008 (Restated)	June 30, 2007 (Restated)	June 30, 2008 (Restated)
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	21 years	22 years	21 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schedule A Members eligible at 9/30/09 - 3.0% compounded Members not eligible at 9/30/09 - 2.5% compounded Schedule B members 2.5% compounded	$1,500 per annum	3.0%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/08	214,016	100%	0
	6/30/09	199,898	100%	0
	6/30/10	192,091	100%	0
State Police Retirement Benefits Trust	6/30/08	3,720	100%	0
	6/30/09	3,341	100%	0
	6/30/10	3,591	100%	0
Judicial Retirement Benefits Trust	6/30/08	2,128	100%	0
	6/30/09	1,700	100%	0
	6/30/10	1,181	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the year ended June 30, 2009, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$ 2,646,081,020	$ 4,482,244,291	$ 1,836,163,271	59.00%	$ 605,872,460	303.10%
Teachers	4,008,931,337	6,900,963,108	2,892,031,771	58.10%	987,463,633	292.90%
SPRBT	60,232,045	75,480,005	15,247,960	79.80%	17,096,202	89.20%
JRBT	36,839,221	41,738,040	4,898,819	88.30%	6,843,454	71.60%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2009 actuarial valuation:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	20 years	20 years	20 years	20 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members eligible at 09/30/09 - 3.0% compounded members not eligible at 09/30/09 - 2.5% compounded Schedule B members – 2.5% compounded	Schedule A members eligible at 09/30/09 - 3.0% compounded members not eligible at 09/30/09 - 2.5% compounded Schedule B members – 2.5% compounded	$1,500 per annum	3.00% see Note1(b) to the Employees Retirement System financial statements

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

Note 1 – Cost of Living Adjustments (COLA) are based on the actual Consumer Price Index or 3%, whichever is lower. For actuarial purposes, the actuary assumes a 2.5% COLA increase.

Other

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Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $15,348,000 during the year ended June 30, 2010.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2010 totaled $7,743,892. At January 1, 2010, the most recent valuation date, the total actuarial accrued liability was $88,349,703 and the actuarial value of assets was $45,904,451. The Authority contributed 100.00% of its annual pension cost for fiscal year 2010 and had a net pension obligation of $1,799,084 at June 30, 2010.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees' Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependents until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the RIRHCBP, and they may be amended in the future by action of the General Assembly.

For those who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of retiree health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of retiree health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

For those (excluding teachers) who retired on or before September 30, 2008 the fiscal 2010 contributions are as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of $501.68 (the active rate plan).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $218.54 for the individual plan, and the monthly premium for the Medicare HMO plan was $115 for the first six months of fiscal year 2010 and $142 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated on their years-of-service subsidy above.

Teachers who retired on or before September 30, 2008 receive the Tier I subsidy but no other State cost sharing.

For anyone (excluding teachers) who retired on or after October 1, 2008, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed $631.81 per month for these retirees during fiscal 2010. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in note (3) above.

For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the State.

The RIRHCBP does not issue a stand-alone financial report.

B. Funding Policy

RIGL Sections 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

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The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State's financial statements. Working premium rates are determined by the State each fiscal year and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2010, the Plan operated on a pay-as-you-go basis, and no provision has been made to fund future benefits to be provided to RIRHCBP members.

In fiscal year 2010 the State and other participating employers were not required to fund the Plans beyond the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs. For the fiscal year ended June 30, 2010, the State and other participating employers paid $38,434,000 into the Plans.

C. Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, less c) the ARC adjustment (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the Plans and the changes in the net OPEB obligation are as follows (dollar amounts in thousands):

	State Employees	Teachers	Judges	State Police	Legislators
Date of Actuarial Valuation	06/30/07	06/30/07	06/30/07	06/30/07	06/30/07
Annual required contribution as a percent of payroll	7.91%	N/A	11.64%	29.83%	116.91%
Annual required contribution	$ 45,824	$ 2,345	$ 1,127	$ 4,628	$ 1,861
Plus: Interest on net OPEB obligation at beginning of year	523	NA	66	209	13
Less: Adjustment to ARC	495	NA	62	197	13
Annual OPEB cost	45,852	2,345	1,131	4,640	1,861
Participating State and/or other employer contributions	33,504	2,345	173	2,268	144
Increase in OPEB obligation	12,348	0	958	2,372	1,717
Net OPEB obligation at beginning of year	14,677		1,853	5,850	378
Net OPEB obligation at end of year	$ 27,025	$ 0	$ 2,811	$ 8,222	$ 2,095

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2010, 2009, and 2008 (the first year of GASB 45 implementation) were as follows (dollar amounts in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2008	$ 38,203	65.06%	$ 13,349
	2009	34,683	96.17%	14,677
	2010	45,852	73.07%	27,025
Teachers	2008	1,428	100.00%	-
	2009	2,180	100.00%	-
	2010	2,345	100.00%	-
Judges	2008	1,382	33.57%	918
	2009	1,109	15.34%	1,853
	2010	1,131	15.33%	2,811
State Police	2008	4,827	32.57%	3,255
	2009	4,609	43.55%	5,850
	2010	4,640	48.88%	8,222
Legislators	2008	285	21.05%	225
	2009	298	48.40%	378
	2010	1,861	7.72%	2,095

The table below displays the funded status of each plan at June 30, 2007, the most recent actuarial valuation date (in thousands):

Rhode Island Retiree Health Care Benefit Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 0	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
Teachers	0	10,243	10,243	0.0%	n/a	n/a
Judges	0	14,024	14,024	0.0%	9,888	141.8%
State Police	0	54,620	54,620	0.0%	15,977	341.9%
Legislators	0	29,764	29,764	0.0%	1,592	1869.6%

Covered payroll and the UAAL as a percentage of covered payroll is not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Annual Required Contributions for fiscal year 2010 was determined based on the June 30, 2007 valuation. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2007 is 29 years. The UAAL for teachers is being amortized over an 8-year period from June 30, 2007.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2007.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate (based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund), a health care cost trend assumption of 10% progressively declining to 4.5% after 8 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes recently enacted through legislation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Other OPEB Plans

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2010, the Program operated on a pay-as-you-go basis, and no provision has been made to fund future benefits to be provided to plan members. The university and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2007. For fiscal year 2010, annual OPEB cost for the university and colleges was $3,742,063, and actual contributions made were $1,820,629. The financial activity for the Program is accounted for in an agency fund which is included in the accompanying financial statements. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency".

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

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

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During Fiscal 2010, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2010 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	$ 17,806	$ 232,147	$ 230,098	$ 19,855

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

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

Note 17. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service 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:

Exhibit A-60

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	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 14,725	$ 194	$ 14,919	$ (12,821)	$ 2,098
Loans to other funds	91,425		91,425	(91,425)	
Total assets	$ 106,150	$ 194	$ 106,344	$ (104,246)	$ 2,098
Liabilities					
Due to other funds	$ 10,467	$ 2,354	$ 12,821	$ (12,821)	$
Loans from other funds	88,963	2,462	91,425	(91,425)	
Total liabilities	$ 99,430	$ 4,816	$ 104,246	$ (104,246)	$
Program revenue					
General government	$ 24	$ 287,454	$ 287,478	$ (287,478)	
Human services		(130)	(130)	130	
Public safety		12,380	12,380	(12,380)	
Expenses					
General government	24	287,823	287,847	(287,847)	
Human services					
Public safety		11,881	11,881	(11,881)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 586,025	$	$ 586,025	$ (267,253)	$ 318,772
Operating transfers out	(261,473)	(5,780)	(267,253)	267,253	
Net transfers	$ 324,552	$ (5,780)	$ 318,772	$	$ 318,772

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$	$	$	$	$
Total assets	$	$	$	$	$
Liabilities					
Due to other funds	$ 2,098	$	$ 2,098	$	$ 2,098
Total liabilities	$ 2,098	$	$ 2,098	$	$ 2,098
Transfers					
Operating transfers in	$ 26,161	$	$ 26,161	$ (26,161)	$
Operating transfers out	(344,933)		(344,933)	26,161	(318,772)
Net transfers	$ (318,772)	$	$ (318,772)	$	$ (318,772)

B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Exhibit A-61

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2010 were as follows:

Guaranteed loans outstanding at June 30, 2010	$846,242,000
Loans guaranteed during the year	255,772,000
Guarantee claims paid during the year	22,956,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $45,653,000 been made during the years ended June 30, 1998 through 2010.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

The Narragansett Bay Commission has approximately $323,000,000 of loans payable to the R.I. Clean Water Finance Agency.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.6 percent of estimated general revenues. The remaining 2.4 percent is contributed to the Budget Reserve Account until such account equals 3.8 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

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Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 6,612	Operating assistance
R.I. Economic Development Corporation	11,032	Operating and capital assistance
University of Rhode Island	56,939	Operating assistance
Rhode Island College	38,003	Operating assistance
Community College of Rhode Island	43,296	Operating assistance
Central Falls School District	52,831	Operating assistance
R.I. Public Transit Authority	5,102	Operating assistance
ISTEA		
R.I. Public Transit Authority	42,490	Operating assistance
Bond Capital		
University of Rhode Island	13,054	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	5,313	Construction, improvement or purchase of assets
Total Governmental Activities	$ 274,672	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2010:

- Central Utilities ($104,000)
- State Telecommunications ($356,000)
- Records Center ($115,000)
- Capitol Police ($15,000)

The deficits will be eliminated through charges for services in fiscal year 2011.

F. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2009			
Net assets as previously reported	$ 835,635	$ 2,253,527	
Fund balance as previously reported			$ 889,307
Correction of errors	(400)	138	
Change in RI Public Laws	9,186	(9,186)	9,186
June 30, 2009 net assets/fund balance as restated	$ 844,421	$ 2,244,479	$ 898,493

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $9,048,000. This decrease primarily consists of a $9,186,000 decrease in net assets for URI ($5,735,000), RIC ($1,294,000) and CCRI ($2,157,000) due to enactment of a provision in the RI Public Laws that changed the manner in which appropriations from the RI Capital Fund to the colleges are recorded as revenue. Additionally, the beginning net assets of Governmental Activities within the government-wide financial statements and the beginning fund balance of the Statement of Revenues, Expenditures, and Changes in Fund Balances in the fund financial statements were increased by $9,186,000 to reflect the same provision in the RI Public Laws.

The beginning net assets of the RIPTCA increased by $138,000 due to the correction of an error in the amount reported as due to the primary government.

The beginning balance for land was reduced by $400,000 because several parcels of land were recorded twice.

In a prior year, expenditures of $1,998,000 were recorded in the RI Clean Water Fund (a capital projects fund) that should have been recorded in the Bond Capital Fund. The correction was made in FY2010, as an adjustment to beginning fund balance in each of the funds; however, there is no aggregate effect on beginning fund balance.

Note 18. Subsequent Events

Primary Government

The State sold $350 million of General Obligation Tax Anticipation Notes in July 2010. The notes bear interest at 2.5% and are due on June 30, 2011.

Twin River is one of the two licensed video lottery facilities of the State. In June of 2009, the operator of Twin River, UTGR, Inc., d/b/a Twin River, and their investors BLB Management Services, Inc and BLB Holdings, Inc commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief. In June of 2010, the United States Bankruptcy Court approved the Second Amended Joint Plan of Reorganization. A facility permit application which had been filed by UTGR, Inc. with the Department of Business Regulation seeking approval for a change of ownership and management structure of UTGR was approved on October 18, 2010. After conducting its due diligence, the Division of Lotteries approved UTGR's application for a video lottery retail license and issued that license to UTGR on November 4, 2010. On or about November 5, 2010, the Debtors' Second Amended Joint Plan of Reorganization became effective allowing the Debtors to emerge from bankruptcy.

Pursuant to legislation enacted by the General Assembly, the State established a trust on December 16, 2010 to accumulate assets and pay benefits and other costs associated with the Rhode Island Retiree Health Care Benefit Plan (see Note 14 for information about the RIRHCBP). In addition, effective in fiscal year 2011, all participating employers are required to fully fund the actuarially determined annual required contribution to the RIRHCBP.

Component Units

In July and August 2010, the R.I. Student Loan Authority (RISLA) retired bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount ranging from 85% to 95% of the Bonds stated par value. $158,600,000 of the outstanding bonds were retired, resulting in a gain of $8,246,000.

On September 2, 2010, the RISLA sold to the US Department of Education (DOE) participating interest in loans under the DOE's Loan Purchase Commitment Program. RISLA sold to DOE loans with a principal balance of $141,534,497 and accrued interest of $3,046,013.

On October 1, 2010 R.I. Housing and Mortgage Finance Corporation (RIHMFC) instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $24,785,000.

In November 2010, the Rhode Island Economic Development Corporation issued $75 million of taxable revenue bonds pursuant to the Job Creation Guaranty Program. The bond proceeds are loaned to 38 Studios, LLC, a company founded to develop video game products. The bonds are secured by a capital reserve fund. The Governor is required to request an appropriation from the General Assembly to restore the capital reserve fund in the event of a deficiency.

On November 4, 2010 the Rhode Island Housing & Mortgage Finance Corporation (RIHMFC) issued $50,000,000 of single family Home Funding Bonds. Also, on October 1, 2010 and December 1, 2010 RIHMFC redeemed $24,785,000 and $170,000, respectively, of outstanding bonds.

Exhibit A-62

On December 16, 2010, the Rhode Island Student Loan Authority (RISLA) issued $25,570,000 in fixed rate bonds to fund its supplemental student loan program.

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 963,200	$ 918,500	$ 898,113	$ (20,387)
General Business Taxes:				
Business Corporations	113,000	115,000	146,835	31,835
Public Utilities Gross Earnings	115,000	97,000	95,793	(1,207)
Financial Institutions	3,750	2,900	2,319	(581)
Insurance Companies	81,900	98,000	95,921	(2,079)
Bank Deposits	1,730	2,200	1,860	(340)
Health Care Provider Assessment	36,127	40,000	40,254	254
Sales and Use Taxes:				
Sales and Use	815,000	787,500	803,395	15,895
Motor Vehicle	50,400	49,000	48,285	(715)
Motor Fuel	920	1,000	969	(31)
Cigarettes	148,000	139,600	138,315	(1,285)
Alcohol	10,900	11,500	11,269	(231)
Other Taxes:				
Inheritance and Gift	29,400	28,000	29,057	1,057
Racing and Athletics	2,100	1,500	1,492	(8)
Realty Transfer Tax	7,200	6,900	6,994	94
Total Taxes *(1)*	2,378,627	2,298,600	2,320,871	22,271
Departmental Revenue	335,532	332,243	333,128	885
Total Taxes and Departmental Revenue	2,714,159	2,630,843	2,653,999	23,156
Other Sources:				
Gas Tax Transfer			24	24
Other Miscellaneous	9,000	34,908	12,467	(22,441)
Lottery	348,700	347,700	344,673	(3,027)
Unclaimed Property	5,000	5,600	5,867	267
Total Other Sources	362,700	388,208	363,031	(25,177)
Total General Revenues	3,076,859	3,019,051	3,017,030	(2,021)
Federal Revenues	2,253,534	2,468,101	2,275,606	(192,495)
Restricted Revenues	160,230	187,874	149,638	(38,236)
Other Revenues	66,068	67,765	67,628	(137)
Total Revenues *(2)*	5,556,691	5,742,791	5,509,902	(232,889)
Expenditures *(4)*:				
General government	809,351	826,180	745,948	80,232
Human services	2,831,800	2,958,314	2,885,024	73,290
Education	1,338,832	1,318,542	1,259,271	59,271
Public safety	408,470	411,196	395,298	15,898
Natural resources	91,720	96,295	67,493	28,802
Total Expenditures *(2)*	5,480,173	5,610,527	5,353,034	$ 257,493
Transfer of Excess Budget Reserve to RI Capital Fund			38,778	
Total Expenditures	$ 5,480,173	$ 5,610,527	5,391,812	
Change in Fund Balance			118,090	
Fund balance - beginning			69,959	
Fund balance - ending			$ 188,049	

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 3,000,341	$ 2,886,787	$ 2,863,575	$ 23,212
Federal Funds	2,253,534	2,468,101	2,276,732	191,369
Restricted Receipts	160,230	187,874	150,910	36,964
Other Funds	66,068	67,765	61,817	5,948
	$ 5,480,173	$ 5,610,527	$ 5,353,034	$ 257,493

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:

Total Revenue - Final Budget	$ 5,742,791	
Total Expenditures - Final Budget	5,610,527	
Final Budget - Projected Surplus (3)		$ 132,264
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (232,889)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	257,493	
Surplus resulting from operations compared to final budget		$ 24,604
Total General Fund Surplus - Fiscal Year Ended June 30, 2010		$ 156,868
Less:Transfer of Excess Budget Reserve to RICAP Fund		(38,778)
Net Change in General Fund - Fund Balance		$ 118,090
Fund Balance, Beginning		69,959
Fund Balance, Ending		$ 188,049

Notes:

(1) Transfers from the Historical Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.6% of estimated general revenue for the fiscal year ending June 30, 2010.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 168,048
Human services	606
Education	20,197
Public safety	438
Natural resources	66
	$ 189,355

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,800	$ 133,920	$ 137,266	$ 3,346
Departmental restricted revenue	1,500	1,000	719	(281)
Federal grants	381,348	308,303	242,443	(65,860)
Other revenues	4,913	1,321	3,559	2,238
Total revenues	528,561	444,544	383,987	(60,557)
Other financing sources:				
Operating transfers in			35,530	35,530
Total revenues and other financing sources	528,561	444,544	419,517	(25,027)
Expenditures:				
Central Management				
Gasoline Tax	1,906	1,184	688	496
Federal Funds	17,204	10,523	3,734	6,789
Total - Central Management	19,110	11,707	4,422	7,285
Management and Budget				
Gasoline Tax	1,186	1,357	354	1,003
Total - Management and Budget	1,186	1,357	354	1,003
Infrastructure - Engineering				
Gasoline Tax	56,396	51,568	51,186	382
State Infrastructure Bank	1,388	1,388		1,388
Land Sale Revenue	3,200	2,000	1,156	844
Highway Logo Program	100	100		100
Federal Funds	364,145	297,780	238,562	59,218
Restricted Receipts	1,500	1,000	757	243
Subtotal - Infrastructure - Engineering	426,729	353,836	291,661	62,175
State Match - FHWA			35,530	(35,530)
Total - Infrastructure - Engineering	426,729	353,836	327,191	26,645
Infrastructure - Maintenance				
Gasoline Tax	36,750	37,802	35,848	1,954
Outdoor Advertising	200	325		325
Radio System Upgrade		(2,532)		(2,532)
Nonland Surplus	25	40	(17)	57
Total - Infrastructure - Maintenance	36,975	35,635	35,831	(196)
Total Expenditures	484,000	402,535	367,798	34,737
Other financing uses:				
Transfers to other funds				
Gas tax			45,996	
USTF fee			2,102	
Other			27	
Total expenditures and other financing uses			415,923	
Net change in fund balance			3,594	
Fund balance - beginning			35,400	
Fund balance - ending			$ 38,994	

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Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 6,655,012	$ 11,383,207	$ 4,728,195	58.5%	$ 1,593,336	296.7%
06/30/2008 *	6,745,323	10,963,521	4,218,198	61.5%	1,573,398	268.1%
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 60,232	$ 75,480	$ 15,248	79.8%	$ 17,096	89.2%
06/30/2008	54,927	69,030	14,102	79.6%	16,699	84.5%
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 36,839	$ 41,738	$ 4,899	88.3%	$ 6,843	71.6%
06/30/2008 *	34,670	38,116	3,445	91.0%	6,602	52.2%
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%

* Restated

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Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	$ 0	$ 679,538	$ 679,538	0%	$ 626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	$ 0	$ 10,243	$ 10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	$ 0	$ 14,024	$ 14,024	0%	$ 9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	$ 0	$ 54,620	$ 54,620	0%	$ 15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	$ 0	$ 29,764	$ 29,764	0%	$ 1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

A more detailed budgetary comparison schedule for the general fund is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress- Pensions

Changes affecting the June 30, 2009 actuarial valuation – The June 30, 2009 actuarial valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflect the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010.

Changes affecting the June 30, 2008 actuarial valuation – The June 30, 2008 valuation of the Employees' Retirement System and the Judicial Benefit Trust reflects the enactment of H5983Aaa, Article 7, Substitute A to the laws governing benefits for state employees and teachers not eligible to retire by September 30, 2009 and judges after July 1, 2009.

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provisions due to the enactment of Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judge and legislator plans as well as the benefits received upon attainment of Medicare eligibility and does not reflect a change in benefit provisions for those employees. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

Changes in actuarial assumptions included in the June 30, 2007 valuation include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted to 110%.

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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 a population increase of 3.1 percent between 1996 and 2010. The U.S. Census Bureau reported that Rhode Island's population decreased by 0.1 percent in 2010 as compared to 2009. The 2010 United States census count for Rhode Island was 1,052,567 or 0.4 percent more than the 1,048,319 counted in 2000. In contrast, the total United States population experienced a population increase of 9.7 percent between 2000 and 2010.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1996 to 2000 period. Rhode Island per capita personal income in 2010 was $42,579 versus U.S. per capita personal income of $40,584. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2009 period, Rhode Island's average poverty rate was 11.5 percent versus the U.S. average poverty rate of 12.9 percent.

Employment. According to the U.S. Department of Labor Bureau of Labor Statistics, total Rhode Island nonfarm employment fell at a rate of 2.2 percent in 2008, 4.4 percent in 2009 and decreased 0.4 percent in 2010. The average annual growth rate for Rhode Island nonfarm employment for the 1996 – 2010 period was 0.3 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 29.7 percent (2006-08 3-year average) of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce Census Bureau 2005 - 2009 American Community Survey 5-Year Estimates. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1993 - 1994 academic year. For 2007 - 2008 Rhode Island spent 44.3 percent more per pupil than the national average.

Population Characteristics

Between 2000 and 2010 Rhode Island's population increased by 0.4 percent, compared to a 3.8 percent increase for the New England region, and a 9.7 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1996 to 1998 lagged that of the New England region. The growth rate of Rhode Island's population was 1.0 percent for that period compared to New England's growth rate of 1.3 percent. From 1999 through 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.6 percent for New England as a whole. The 2010 U.S. Census indicates that Rhode Island's population grew at a rate -0.1 percent from 2009, which is again lower than that of New England's growth rate of 0.1 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 2000 to 2010 period, the United States' population average growth rate was 0.9 percent.

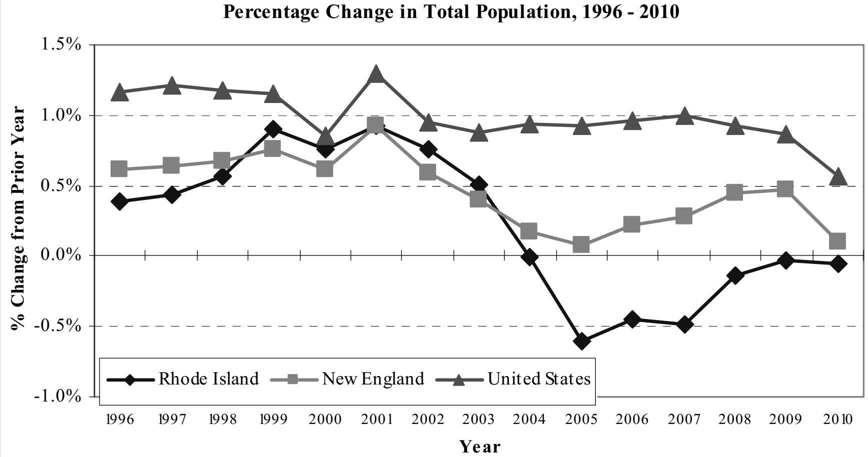
Population, 1996 - 2010
(in thousands)

	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
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	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	0.9%
2006	1,060	-0.5%	14,259	0.2%	298,593	1.0%
2007	1,055	-0.5%	14,298	0.3%	301,580	1.0%
2008	1,054	-0.1%	14,363	0.5%	304,375	0.9%
2009	1,053	0.0%	14,430	0.5%	307,007	0.9%
2010	1,053	-0.1%	14,445	0.1%	308,746	0.6%

U.S. Department of Commerce, U.S. Census Bureau, data accessed on June 17, 2010

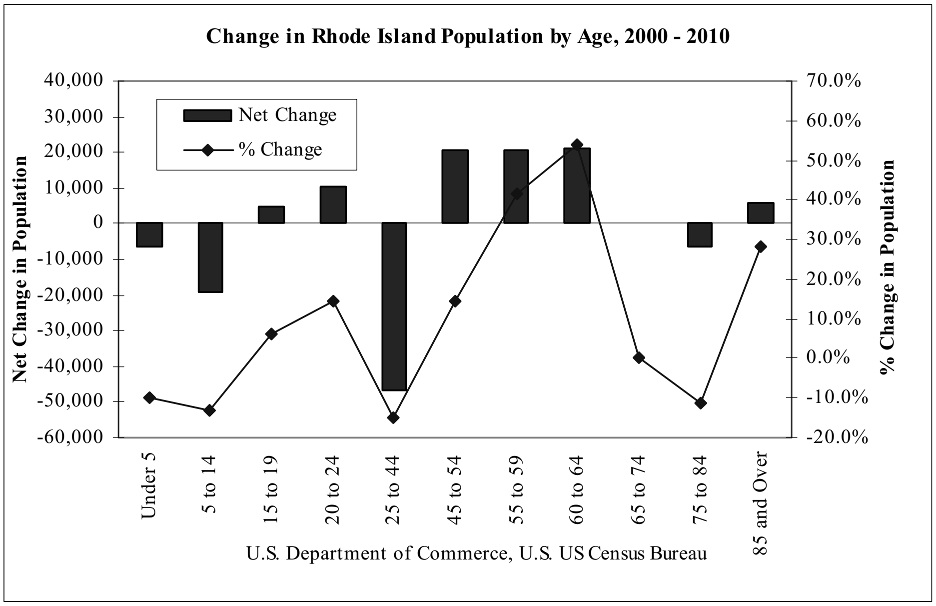
The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States

Percentage Change in Total Population, 1996 - 2010



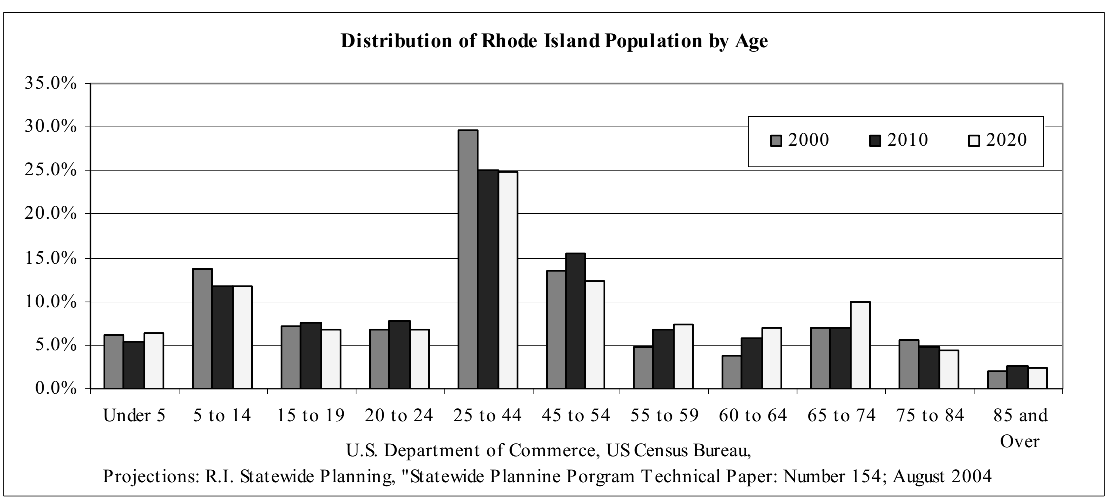
U.S. Department of Commerce, U.S. Census Bureau, data accessed on June 17, 2010

The following chart shows the net change in Rhode Island's population between 2000 and 2010 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 "45 to 64" age group is a reflection of this.



The U.S. Census Bureau reported that from 2000 to 2010 Rhode Island saw substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state saw a sizeable increase in its older population (i.e., 45 to 64). In addition, the state experienced a decline in its young adult to middle age population (i.e., 25 to 44) and a decline in its youth to young adult population (i.e., under 5 to 24).

The chart below shows the projected graying of the Rhode Island population in 2020. In 2020, Rhode Island Statewide Planning projects the population to be distributed more heavily in the "55 – 74" age group while the percentage of people in the "15 – 54" age group declines from 2000 levels. In addition, the percentage of the population 85 and over is expected to remain higher than 2000 levels. The median age for Rhode Islanders in 2000 was 36.7 years and rose to 39.4 years in 2010 according to the U.S. Census Bureau. By 2020, the median age for Rhode Islanders is projected to decrease to 39.2 years based of the U.S. Census Bureau's projections from the 2000 Census.



Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States in 2010. Rhode Island per capita nominal personal income averaged $1,995 more than United States per capita nominal personal income for 2010. Note that Rhode Island per capita nominal personal income has trailed that of the New England region prior to 2000 and in 2010 by an average of $5,628. In fact, the gap between Rhode Island per capita nominal personal was $6,941in 2010, which is slightly less than the $7,117 it trailed by in 2000.

From 1998 – 2000, Rhode Island per capita real income growth trailed that of the United States. From 2001-2009 the Bureau of Economic Analysis has omitted data because the 2010 population number derived by the U.S. Census Bureau used a different method than the previously released population numbers for this period. These figures will become available once the U.S. Census Bureau releases revised population figures consistent with the 2000 and 2010 Census.

Per Capita Personal Income, 1996 - 2010

	Nominal Income* (in current dollars)				Real Income (in 2005 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**PCE Deflator^**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1996	24,299	28,521	24,442	83.8%	28,987	34,024	29,158	1.8%	3.2%	2.8%
1997	25,621	30,087	25,654	85.4%	30,003	35,233	30,042	3.5%	3.6%	3.0%
1998	26,945	32,128	27,258	86.2%	31,256	37,268	31,619	4.2%	5.8%	5.3%
1999	27,741	33,581	28,333	87.6%	31,669	38,336	32,345	1.3%	2.9%	2.3%
2000	29,484	36,601	30,318	89.8%	32,841	40,769	33,770	3.7%	6.3%	4.4%
2001	(NA)	(NA)	(NA)	91.5%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2002	(NA)	(NA)	(NA)	92.7%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2003	(NA)	(NA)	(NA)	94.6%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2004	(NA)	(NA)	(NA)	97.1%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2005	(NA)	(NA)	(NA)	100.0%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2006	(NA)	(NA)	(NA)	102.7%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2007	(NA)	(NA)	(NA)	105.6%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2008	(NA)	(NA)	(NA)	109.1%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2009	(NA)	(NA)	(NA)	109.3%	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
2010(p)	42,579	49,520	40,584	111.1%	38,319	44,566	36,524	(NA)	(NA)	(NA)

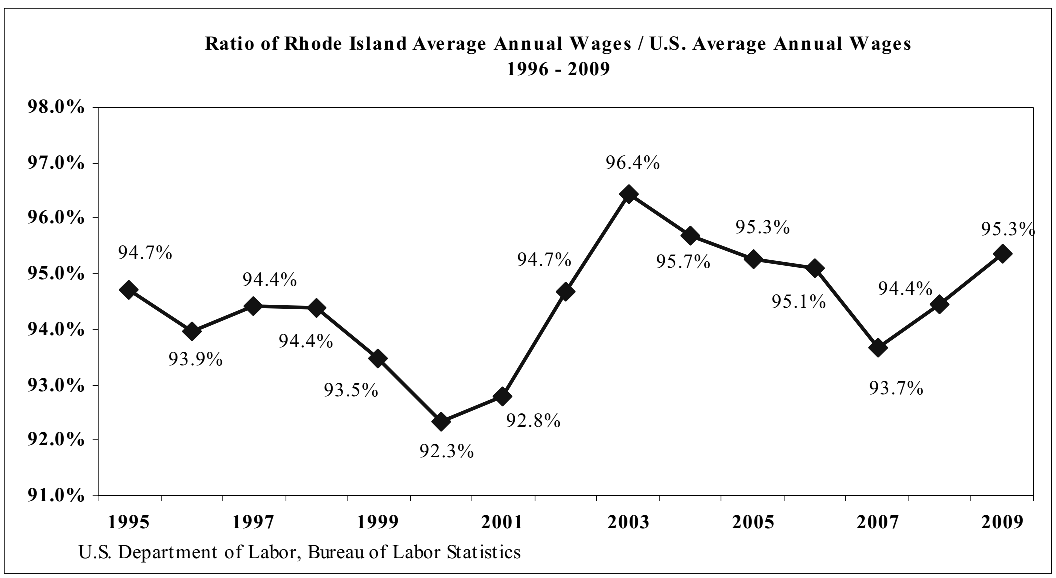
*U.S. Department of Commerce, Bureau of Economic Analysis for the periods from 1996-2000 & 2010(p), for 2001-2009 the data was omitted because the U.S. Census Bureau 2010 population number is derived using a different method than previously released population numbers for 2001-2009. These numbers will be available once the U.S. Census Bureau releases revised population figures consistent with the 2000 and 2010 Census.

^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 2005=100]

Average Annual Pay. Annual pay has grown steadily in Rhode Island over the past fifteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003 rebounding for the first time in 2008. In 1995, average annual pay in Rhode Island was 94.7 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, $36,415 for Rhode Island versus $37,765 for the United States as a whole. From 2004 - 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S; however, from 2008-2009 Rhode Island has actually seen greater increases in average annual pay than the United States. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1996 - 2009 (in current dollars)					
	Annual Pay			Percentage Change	
Year	**R.I.**	**U.S.**	**R.I. / U.S.**	**R.I.**	**U.S.**
1995	26,375	27,846	94.7%	-	-
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%
2009	43,439	45,559	95.3%	1.0%	0.0%
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 1995 – 2009 period.



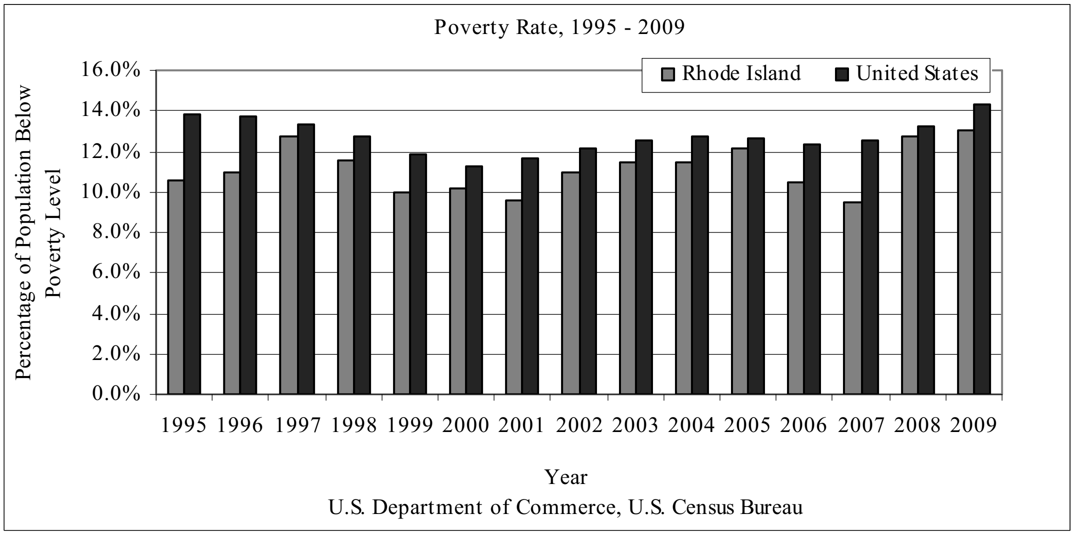
Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1996 and 2010. The data for each year is the Consumer Price Index for all urban consumers (CPI-U) within the designated area and the percentage change in the CPI-U from the previous year. From 1996 to 2010, 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 1996, 1998, 1999, and 2007. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2010 the rate was 0.4 percent above the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1996 - 2010					
	CPI-U		Ratio	Pct. Change	
Year	Northeast	U.S.	Northeast/U.S.	Northeast	U.S.
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.5	106.9%	0.0%	-0.4%
2010	233.9	218.1	107.3%	2.0%	1.6%
U.S. Department of Labor, Bureau of Labor Statistics					

Poverty. From 1995 – 2009 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 1995 and 2009, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 13.0 percent in 2009. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 14.3 percent in 2009. Interestingly, in the 2002, 2003, 2005 and 2008 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 1995 through 2009.

Poverty Rate, 1995 - 2009					
			Ratio	Percentage Change	
Year	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
1995	10.6	13.8	76.8%	-	-
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%
2009	13.0	14.3	90.9%	2.4%	8.3%
U.S. Department of Commerce, 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 1995 – 2009. It also illustrates the downward trend in the United States poverty rate from 1995 – 2000.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1996 to 2010 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1996 - 2010
Not Seasonally Adjusted

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		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
1996	14,158	4.3%	77,383	-3.7%	72,708	-2.3%	78,283	0.9%	79,158	2.6%	57,683	5.6%	61,308	0.1%	**440,683**	**0.4%**
1997	14,800	4.5%	76,200	-1.5%	72,900	0.3%	82,550	5.5%	80,725	2.0%	59,600	3.3%	63,217	3.1%	**449,992**	**2.1%**
1998	16,183	9.3%	74,875	-1.7%	74,683	2.4%	86,733	5.1%	81,625	1.1%	60,975	2.3%	62,933	-0.4%	**458,008**	**1.8%**
1999	18,000	11.2%	72,175	-3.6%	75,658	1.3%	89,950	3.7%	82,317	0.8%	64,042	5.0%	63,383	0.7%	**465,525**	**1.6%**
2000	18,367	2.0%	71,192	-1.4%	79,600	5.2%	92,908	3.3%	83,233	1.1%	67,025	4.7%	64,392	1.6%	**476,717**	**2.4%**
2001	19,242	4.8%	67,767	-4.8%	79,300	-0.4%	93,958	1.1%	84,925	2.0%	68,008	1.5%	65,208	1.3%	**478,408**	**0.4%**
2002	19,625	2.0%	62,267	-8.1%	80,475	1.5%	92,967	-1.1%	88,008	3.6%	69,958	2.9%	66,083	1.3%	**479,383**	**0.2%**
2003	20,942	6.7%	58,658	-5.8%	80,767	0.4%	94,658	1.8%	90,975	3.4%	72,042	3.0%	66,208	0.2%	**484,250**	**1.0%**
2004	21,200	1.2%	56,983	-2.9%	80,225	-0.7%	98,433	4.0%	92,933	2.2%	73,208	1.6%	65,533	-1.0%	**488,517**	**0.9%**
2005	22,058	4.0%	54,908	-3.6%	80,100	-0.2%	100,200	1.8%	95,317	2.6%	73,517	0.4%	64,925	-0.9%	**491,025**	**0.5%**
2006	23,092	4.7%	52,692	-4.0%	79,750	-0.4%	102,467	2.3%	97,108	1.9%	73,225	-0.4%	64,942	0.0%	**493,275**	**0.5%**
2007	22,417	-2.9%	50,733	-3.7%	79,750	0.0%	101,442	-1.0%	99,225	2.2%	74,600	1.9%	64,433	-0.8%	**492,600**	**-0.1%**
2008	20,675	-7.8%	47,942	-5.5%	77,383	-3.0%	98,617	-2.8%	100,050	0.8%	73,767	-1.1%	63,475	-1.5%	**481,908**	**-2.2%**
2009	17,383	-15.9%	41,767	-12.9%	73,267	-5.3%	93,883	-4.8%	100,992	0.9%	71,125	-3.6%	62,092	-2.2%	**460,508**	**-4.4%**
2010	16,025	-7.8%	40,375	-3.3%	73,225	-0.1%	93,750	-0.1%	101,925	0.9%	71,675	0.8%	61,783	-0.5%	**458,758**	**-0.4%**

Data reflects twelve month average of nonseasonaly adjusted data
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Between 1996 and 2010, total nonfarm employment in Rhode Island increased by 4.1 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing which declined by 47.8 percent. Total nonfarm employment growth from 1997 to 2000 averaged 2.0 percent. In 2001, Rhode Island employment growth saw a minimal increase of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the "jobless" recovery commenced in early 2002. In 2003, Rhode Island employment grew by a rate of 1.0 percent and then began decreasing at rates of 0.9 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively. The first negative growth in nonfarm employment came in the 2007 and continued through 2010 with decreases of 0.1 percent, 2.2 percent, 4.1 percent and 0.4 percent.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 2000 to 2010. Total nonfarm employment decreased by 3.8 percent during this period, and the composition of this total employment changed markedly. Employment declined by 17.0 percent in Manufacturing, Construction, Natural Resources and Mining, Trade, Transportation and Utilities and Government during this time period. Meanwhile, average employment growth for all other sectors increased 10.1 percent. The sector which saw the largest gain during this period was Educational & Health Services, which grew by 22.5 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2000 to 2010 period, transforming from a manufacturing and construction based economy to service based economy.

Rhode Island Nonfarm Employment by Industry, 2000 & 2010

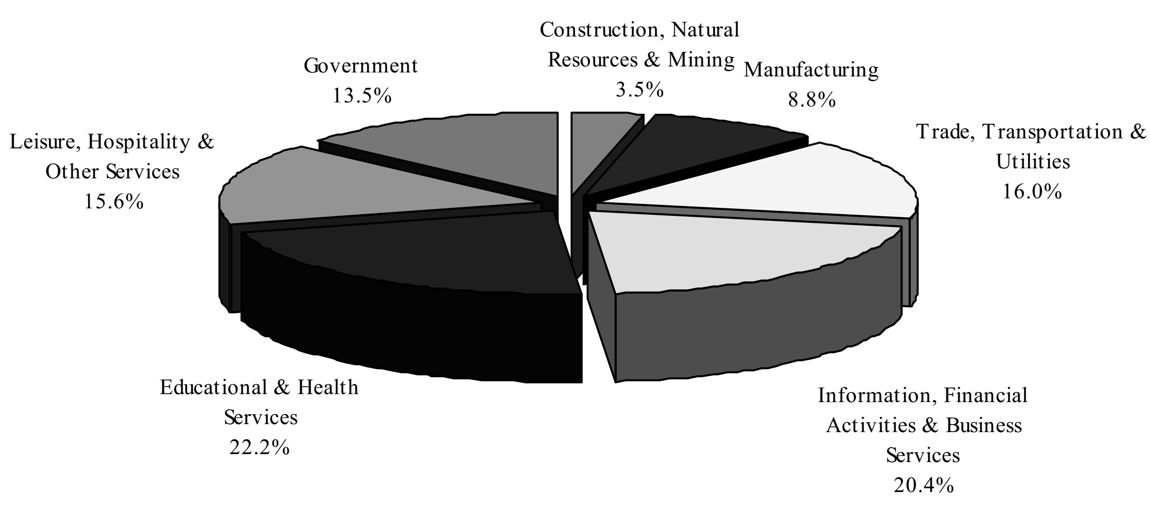
Employment Sector	2000	% of Total	2010	% of Total	% Change 2000-2010
Construction, Natural Resources & Mining	18,367	3.9%	16,025	3.5%	-12.7%
Manufacturing	71,192	14.9%	40,375	8.8%	-43.3%
Trade, Transportation & Utilities	79,600	16.7%	73,225	16.0%	-8.0%
Information, Financial Activities & Business Services	92,908	19.5%	93,750	20.4%	0.9%
Educational & Health Services	83,233	17.5%	101,925	22.2%	22.5%
Leisure, Hospitality & Other Services	67,025	14.1%	71,675	15.6%	6.9%
Government	64,392	13.5%	61,783	13.5%	-4.1%
Total Employment	476,717	100.0%	458,758	100.0%	-3.8%

Data reflects twelve month average of nonseasonaly adjusted data
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy. The Educational and Health Services sector, with 22.2 percent of the nonfarm work force in 2010, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.4 percent), Trade, Transportation and Utilities (16.0 percent), Leisure, Hospitality and Other Services employment (15.6 percent), Government (13.5 percent), Manufacturing (8.8 percent), and Construction, Natural Resources and Mining (3.5 percent).

Rhode Island Nonfarm Employment by Industry, 2010

U.S. Department of Labor, Bureau of Labor Statistics



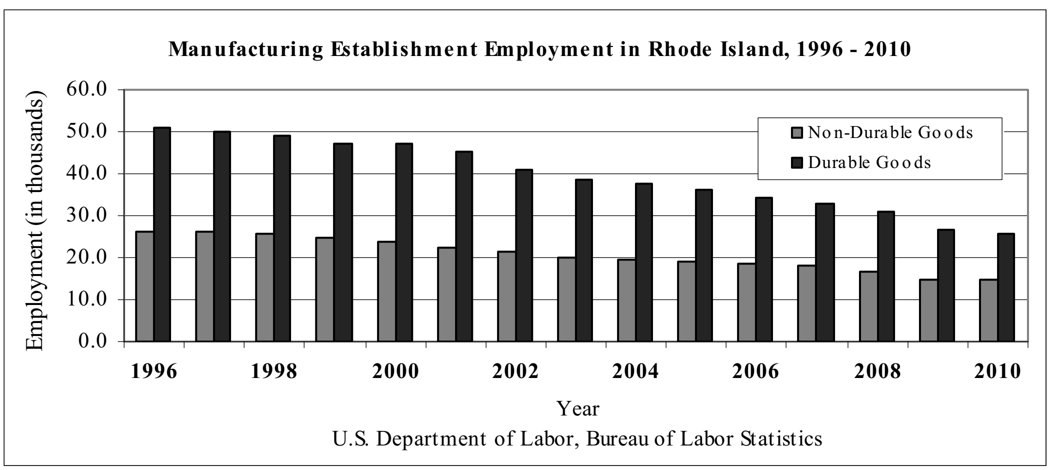
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1996 and 2010, falling by 47.8 percent over this period. The rate of decline 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 4.6 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 2.9 percent in 2004, 3.7 percent in 2005, 4.0 percent in 2006 and 3.8 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 12.7 percent in 2009.

Manufacturing Establishment Employment in Rhode Island, 1996 - 2010
(In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Non-Durable Goods	26.2	26.3	25.8	24.8	24.0	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.8	14.9	14.6
Percentage Change	-1.5%	0.4%	-1.9%	-3.9%	-3.2%	-5.8%	-5.8%	-5.2%	-3.5%	-2.6%	-2.1%	-3.8%	-6.1%	-11.3%	-2.0%
Durable Goods	51.1	49.8	48.9	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	26.9	25.8
Percentage Change	-4.7%	-2.5%	-1.8%	-3.3%	-0.4%	-4.0%	-9.3%	-6.1%	-2.6%	-4.0%	-5.3%	-3.8%	-5.2%	-13.5%	-4.1%
Total Manufacturing Employment	77.3	76.2	74.8	72.1	71.1	67.8	62.3	58.7	57.0	54.9	52.7	50.7	47.9	41.8	40.4
Percentage Change	-3.7%	-1.4%	-1.8%	-3.6%	-1.4%	-4.6%	-8.1%	-5.8%	-2.9%	-3.7%	-4.0%	-3.8%	-5.5%	-12.7%	-3.3%

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Employment in the manufacture of non-durable goods declined in every year since 1996 with the exception of 1997 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island as reported by the Rhode Island Economic Development Corporation. Together, they employ 129,732 persons, which equates to 28.3 percent of total nonfarm employment in the State, excluding municipal employment.

Rhode Island's Largest Employers

Employed	Employer	Industry
14,904	State of Rhode Island - *excluding URI, RIC, and CCRI*	Government
11,869	Lifespan	Health Care and Social Assistance
11,581	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
5,953	Care New England	Health Care and Social Assistance
5,800	CVS Corporation	Retail Trade
4,991	Citizens Financial Group, Inc.	Finance and Insurance
4,800	Brown University	Educational Services
3,632	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
3,500	Bank of America	Finance and Insurance
2,934	Fidelity Investments	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,604	MetLife Insurance Co.	Finance and Insurance
2,243	General Dynamics Corp.	Manufacturing
2,155	University of Rhode Island	Educational Services
2,078	Wal-Mart	Retail Trade
2,050	The Jan Companies	Other
1,900	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,865	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
1,780	The Home Depot, Inc.	Retail Trade
1,750	Hasbro, Inc.	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,430	Raytheon	Manufacturing
1,410	Amica Life Insurance Company	Finance and Insurance
1,400	Johnson & Wales University	Educational Services
1,353	Rite Aid Pharmacy	Retail Trade
1,272	Landmark Health Systems	Health Care and Social Assistance
1,200	APC Schneider Electric	Manufacturing
1,160	Securitas AB	Security Services
1,123	Verizon Communications	Information
1,119	Cox Communications, Inc.	Information
1,103	GTECH Corporation	Information
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,082	McDonald's	Other
1,050	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
950	Veterans' Administration Medical Center	Health Care and Social Assistance
930	Rhode Island School of Design	Educational Services
930	Providence College	Educational Services
900	Newport Harbor Corporation	Other
900	Amgen, Inc.	Manufacturing
898	Belo Corporation	Information
888	Lowe's Home Improvement	Retail Trade
887	Rhode Island College	Educational Services
873	Twin River (UTGR)	Gambling
859	Target Corporation	Retail Trade

R.I. Economic Development Corporation

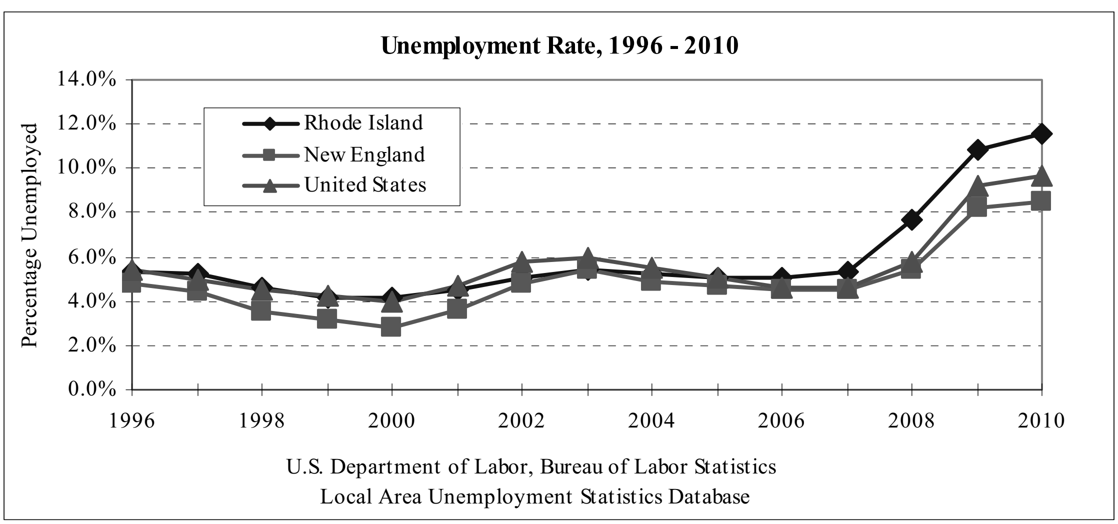
Unemployment. From 1997 to 2000, the Rhode Island unemployment rate was higher than the national unemployment rate with the exception of 1999. This pattern was reversed from 2001 to 2004 when Rhode Island's unemployment rate was lower than that of the United States. From 2006 to 2008, Rhode Island's unemployment rate again rose above the United States. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1996 and 2010.

Annual Average Civilian Labor Force and Unemployment, 1996 - 2010
(in thousands)

	Civilian Labor Force			**Unemployed**			**Unemployment Rate**			**R.I. Rate as a %**
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1996	517	7,118	133,944	28	340	7,236	5.3%	4.8%	5.4%	98.1%
1997	532	7,228	136,297	28	315	6,739	5.2%	4.4%	5.0%	105.1%
1998	534	7,257	137,673	24	253	6,210	4.6%	3.5%	4.5%	101.7%
1999	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	99.4%
2000	543	7,348	142,583	23	204	5,692	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,801	4.5%	3.6%	4.7%	95.2%
2002	554	7,496	144,863	28	363	8,378	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,774	5.4%	5.4%	6.0%	90.4%
2004	555	7,476	147,401	29	366	8,149	5.2%	4.9%	5.5%	94.1%
2005	561	7,516	149,320	28	353	7,591	5.1%	4.7%	5.1%	100.5%
2006(d)	573	7,607	151,428	29	344	7,000	5.1%	4.5%	4.6%	110.3%
2007(d)	576	7,652	153,124	30	341	7,078	5.3%	4.5%	4.6%	114.6%
2008(d)	572	7,715	154,287	44	415	8,924	7.7%	5.4%	5.8%	133.3%
2009(d)	566	7,733	154,142	61	633	14,265	10.8%	8.2%	9.3%	116.8%
2010(d)	576	7,770	153,889	67	660	14,825	11.6%	8.5%	9.7%	120.2%

U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database
(d) Reflects revised population controls and model reestimation.

In 2010, the State's unemployment rate was 11.6 percent and New England's unemployment rate was 8.5 percent. The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1996 - 2010 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent since the onset of the recession.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

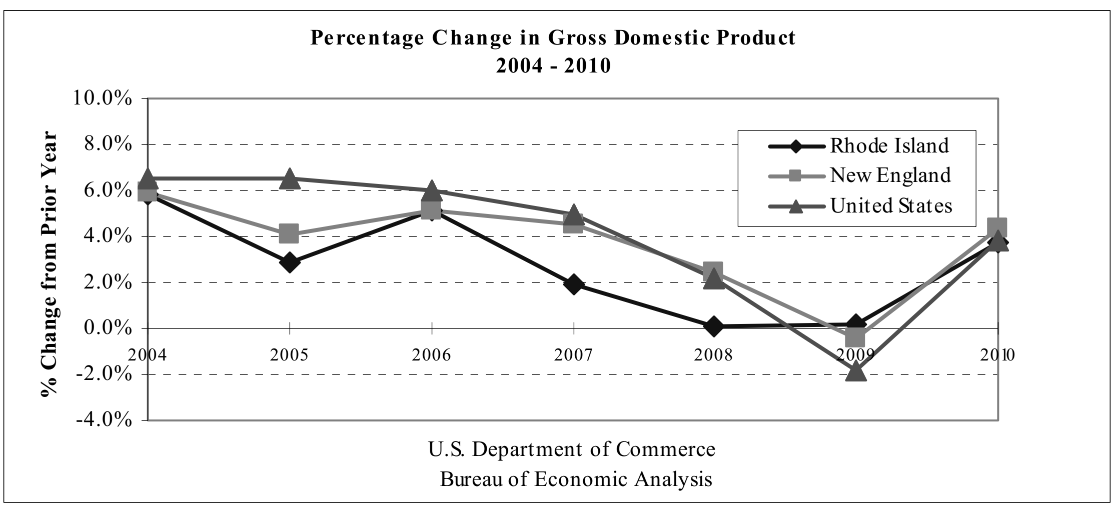
From 2004 – 2010, growth in the Rhode Island Gross Domestic Product (GDP) was less than GDP growth in the United States except for 2009. Rhode Island GDP grew in 2009, although only slightly at 0.2 percent, which was greater than the negative 0.4 percent GDP growth in New England and the negative 1.8 percent GDP growth in the United States. The table below gives Gross Domestic Product and the annual growth rates for Rhode Island, New England and the Unites States from 2004 – 2010.

Gross Domestic Product, 2004 - 2010
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2004	42,933	5.8%	659,529	5.9%	11,788,909	6.5%
2005	44,169	2.9%	686,539	4.1%	12,554,538	6.5%
2006	46,449	5.2%	721,860	5.1%	13,310,937	6.0%
2007	47,334	1.9%	754,306	4.5%	13,969,323	4.9%
2008	47,378	0.1%	772,347	2.4%	14,270,462	2.2%
2009	47,470	0.2%	769,308	-0.4%	14,014,849	-1.8%
2010	49,234	3.7%	802,771	4.3%	14,551,782	3.8%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total

The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2004 - 2010. As indicated by the graph Rhode Island GDP growth was substantially lower than that of New England and the United States during the onset of the recession until 2009 when Rhode Island's GDP growth was greater than both the U.S. and New England. However Rhode Island was not able to maintain this momentum into 2010 when GDP growth again fell below that of New England and the United States.



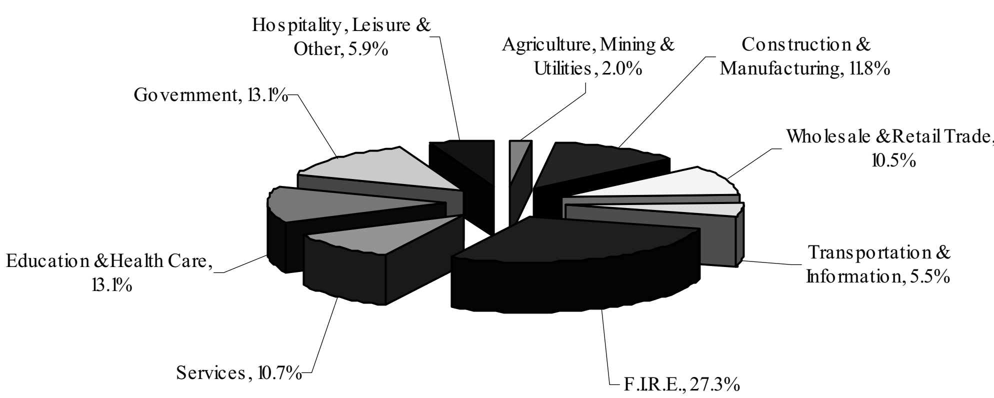
Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in nearly all sectors from 2004 to 2010.

Gross Domestic Product by Industry in Rhode Island, 2004 - 2010 (millions of current dollars)							
Industrial Sector	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Agriculture, forestry, fishing and hunting	89	82	89	85	82	80	84
Mining	25	24	21	22	32	31	24
Utilities	627	624	755	740	843	826	865
Construction	2,102	2,260	2,382	2,350	2,221	1,983	1,873
Manufacturing	4,382	4,046	4,523	4,218	4,108	3,618	3,929
Wholesale Trade	2,144	2,240	2,282	2,399	2,345	2,285	2,442
Retail Trade	2,683	2,750	2,744	2,799	2,583	2,555	2,713
Transportation and warehousing, excluding postal service	663	685	723	709	736	690	729
Information	1,856	1,895	1,856	1,765	1,906	1,913	1,998
Finance and insurance	5,143	5,139	5,536	5,672	5,052	5,881	6,376
Real estate, rental and leasing	6,207	6,559	6,678	6,951	7,162	7,214	7,082
Professional and technical services	2,250	2,339	2,642	2,687	2,902	2,874	2,950
Management of companies and enterprises	902	989	1,120	1,181	1,260	1,139	1,162
Administrative and waste services	990	1,085	1,106	1,164	1,164	1,104	1,178
Educational services	991	1,036	1,109	1,183	1,252	1,300	1,359
Health care and social assistance	3,899	4,100	4,304	4,426	4,603	4,820	5,077
Government	5,261	5,472	5,672	5,963	6,215	6,333	6,468
Hospitality , Leisure & Other	2,719	2,844	2,907	3,020	2,912	2,824	2,925
Total GDP	**42,933**	**44,169**	**46,449**	**47,334**	**47,378**	**47,470**	**49,234**
U.S. Department of Commerce, Bureau of Economic Analysis; Gross Domestic Product by State							

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2010 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2010

U.S. Department of Commerce, Bureau of Economic Analysis



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. contributed 27.3 percent of GDP in 2010. In 2010, F.I.R.E. accounted for $13.5 billion of the $49.2 billion total gross domestic product. For the period 2004 - 2010 this sector expanded by a respectable 18.6 percent.

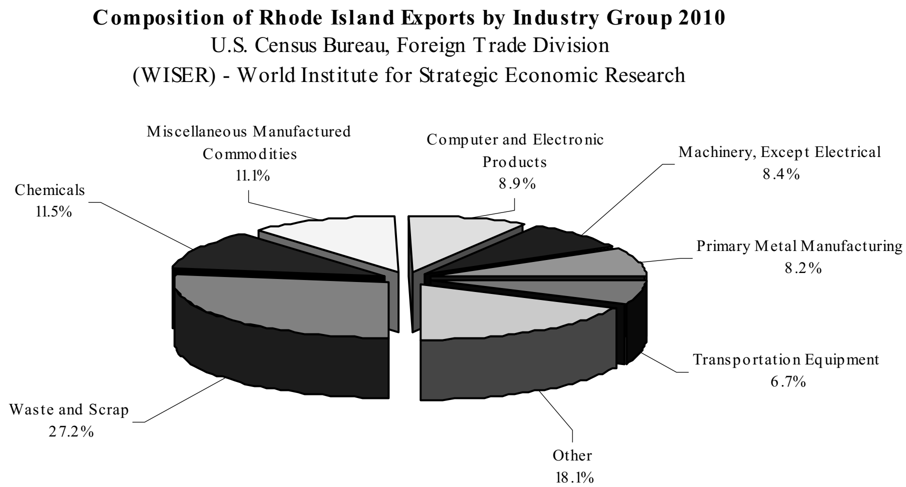
Construction and Manufacturing. In 2010, Construction and Manufacturing was the forth largest sector in Rhode Island at $5.8 billion, or 11.8 percent of the total Gross Domestic Product. This sector decreased by -10.5 percent from the 2004 level and in its percent contribution to GDP. In 2004, Construction and Manufacturing comprised a larger piece of GDP at 15.1 percent of the total.

Government. At 13.1 percent of GDP in 2010, the Government sector has grown slowly and steadily since 2004. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes only slightly more as a percentage of GDP in 2010 than it did in 2004. In 2004, the Government sector accounted for 12.3 percent of GDP. This sector grew by 4.0 percent in 2005, 3.7 percent in 2006, 5.1 percent in 2007, 4.2 percent in 2008, 1.9 percent in 2009 and 2.1 percent in 2010. In 2010, the Government sector contributed $6.5 billion of total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2004, Services have remained an integral sector accounting for 29.8 percent of Rhode Island's GDP in 2010. From 2004 to 2010, Services have grown by 24.7 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 2007 was $1.65 billion. This represented 3.49 percent of Rhode Island Gross Domestic Product of $47.3 billion. In 2010, Rhode Island's exports increased to $1.95 billion, an increase of 18.1 percent over 2007 levels.



The most important exports, as shown in the chart above, were waste and scrap (27.2 percent), chemicals (11.5 percent), miscellaneous manufactured commodities (11.1 percent), computers and electronic products (8.9 percent), Machinery, Except Electrical (8.4 percent), primary metal manufacturing (8.2 percent), transportation equipment (6.7 percent), all other exports (18.1 percent). .

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2007-2010 period.

Rhode Island Exports by Industry, 2007 - 2010 (in thousands of dollars)	2007	2008	2009	2010
Total All Industries	1,648,710	1,974,432	1,495,522	1,946,388
Waste and Scrap	396,185	520,488	385,309	528,827
Chemicals	164,687	175,625	125,365	223,863
Miscellaneous Manufactured Commodities	201,929	296,330	178,292	216,944
Computer and Electronic Products	214,256	183,742	184,433	172,762
Machinery, Except Electrical	179,062	245,335	135,858	163,000
Primary Metal Manufacturing	87,626	98,877	66,483	159,176
Transportation Equipment	63,706	78,949	106,132	129,922
Plastics and Rubber Products	94,251	115,872	94,582	95,197
Electrical Equipment, Appliances and Component	72,611	76,468	45,787	64,601
Fabricated Metal Products, NESOI	48,610	48,120	46,788	37,231
Textiles and Fabrics	26,724	25,567	21,445	34,327
Fish - Fresh, Chilled or Frozen & Other Marine Products	23,859	30,367	29,392	27,916
Paper	15,866	16,065	12,778	17,256
Minerals and Ores	1,487	1,345	11,664	14,975
Printing, Publishing and Similar Products	8,048	10,417	10,351	11,840
Special Classification Provisions, Nesoi	9,066	4,549	4,164	9,875
Textile Mill Products	5,084	6,061	6,972	8,110
Food and Kindred Products	5,007	7,184	8,398	6,593
Furniture and Fixtures	5,900	6,880	4,193	6,013
Nonmetallic Mineral Products	9,296	8,479	5,704	5,183
Apparel and Accessories	4,683	6,947	3,743	4,524
Used or Second-Hand Merchandise	1,335	2,768	2,401	3,003
Petroleum and Coal Products	914	1,378	292	2,001
Leather and Allied Products	4,018	3,516	2,635	1,014
Wood Products	633	840	793	773
Forestry Products, Nesoi	567	75	414	584
Livestock and Livestock Products	1,301	546	581	395
Goods Returned to Canada (Exports Only); U.S. Goods	381	514	337	305
Prepackaged Software	91	184	112	122
Beverages and Tobacco Products	105	255	73	43
Agricultural Products	1,422	687	51	12
Oil and Gas	0	0	0	0

(WISER) - World Institute for Strategic Economic Research
U.S. Census Bureau, Foreign Trade Division

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 2000 the number of housing permits authorized in Rhode Island decreased by 18.1 percent. In 2010, the number of housing permits authorized increased by 0.4 percent in Rhode Island, compared to an increase of 20.0 percent for New England and an increase of 4.0 percent for the United States.

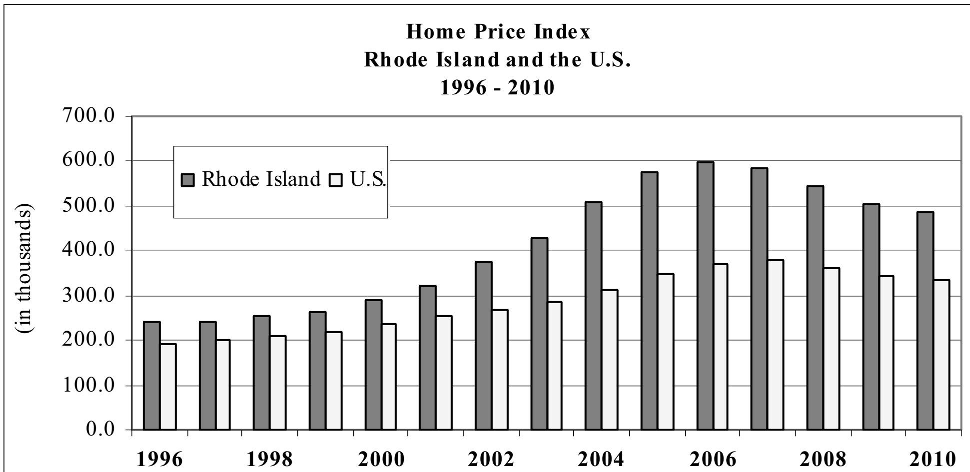
Housing Permits Authorized, 1996 - 2010 (seasonally adjusted)						
	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1996	2,356	2.9%	40,013	7.0%	1,420,000	6.2%
1997	2,726	15.7%	42,279	5.7%	1,442,000	1.5%
1998	2,653	-2.7%	47,906	13.3%	1,619,000	12.3%
1999	3,239	22.1%	47,371	-1.1%	1,662,000	2.7%
2000	2,654	-18.1%	43,754	-7.6%	1,600,000	-3.7%
2001	2,401	-9.5%	42,928	-1.9%	1,639,000	2.4%
2002	2,602	8.4%	47,296	10.2%	1,750,000	6.8%
2003	2,445	-6.0%	48,425	2.4%	1,889,000	7.9%
2004	2,511	2.7%	56,139	15.9%	2,058,000	8.9%
2005	2,945	17.3%	56,815	1.2%	2,162,000	5.1%
2006	2,264	-23.1%	48,229	-15.1%	1,846,000	-14.6%
2007	1,919	-15.2%	36,520	-24.3%	1,391,000	-24.6%
2008	1,165	-39.3%	24,007	-34.3%	896,000	-35.6%
2009	918	-21.2%	17,364	-27.7%	582,000	-35.0%
2010	922	0.4%	20,842	20.0%	605,000	4.0%
Federal Reserve Bank of Boston, Regional Data New England Economic Indicators: Source: U.S. Census Bureau.						

From 1996 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.7 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below, data is not available for the New England Region from 2005-2007 due to the fact that the National Association of Realtors did not report home sales for New Hampshire and Vermont because of sampling issues with some of the surveys. .

Existing Home Sales, 1996 - 2010 (seasonally adjusted at annual rates, in thousands)						
	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1996	12.8	10.6%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	261.8	0.1%	5,656.7	6.2%
2003	16.8	-2.3%	265.8	1.5%	6,175.9	9.2%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.1	-21.1%	214.8	-	4,893.5	-13.7%
2009	15.1	15.3%	219.8	2.3%	5,160.0	5.4%
2010	13.6	-9.9%	218.1	-0.8%	4,919.0	-4.7%
Federal Reserve Bank of Boston; Source: National Association of Realtors						

Home Price Index **Rhode Island and the U.S, 1996 - 2010** (not seasonally adjusted, in thousands)			
Year	**R.I.**	**U.S.**	**R.I. Home Prices as a Percentage of the U.S.**
1996	241.0	193.3	124.7%
1997	242.8	199.8	121.5%
1998	252.4	210.2	120.0%
1999	262.7	220.4	119.2%
2000	289.8	234.3	123.7%
2001	323.1	252.1	128.2%
2002	372.9	268.1	139.1%
2003	427.5	284.8	150.1%
2004	506.2	311.1	162.7%
2005	574.7	346.2	166.0%
2006	599.2	371.7	161.2%
2007	585.1	377.1	155.2%
2008	543.4	361.3	150.4%
2009	505.3	345.0	146.5%
2010	486.8	332.8	146.3%
Federal Reserve Bank of Boston, Source: Federal Housing Finance Agency			

The home price index for Rhode Island and the United States (not seasonally adjusted) appear in the chart below and table above. While the Rhode Island home price index was 124.7 percent of the U.S. average in 1996, by 1999 it had fallen to 119.2 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 166.0 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2010 stands at 146.3 percent of the U.S. level.



Federal Reserve Bank of Boston, Federal Housing Finance Agency

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the “peace dividend” from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island remained flat at $418 million. However, by 2008 contracts awarded to Rhode Island had increased to $682 million or an increase of 33.5 percent from 2007. In 2009 the dollar amount of contracts awarded to Rhode Island decreased by 2.9 percent but was well above the average of $375 million from 1995-2007 at $662 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2009. Since 1990, Rhode Island's share of New England contract awards has decreased from 4.1 percent to 2.3 percent of such awards in 2006.

Department of Defense Contract Awards, 1995 - 2009
(in thousands)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%
2007	511	23,239	297,363	2.2%	0.2%
2008	682	26,996	349,557	2.5%	0.2%
2009	662	29,351	327,462	2.3%	0.2%

Department of Defense; Personnel and Military Causalty Statistics: Statistical Information Analysis Division

Travel and Tourism

According to the Rhode Island Economic Development Corporation's Tourism Division, the 2009 Tourism Satellite Account produced by IHS Global Insight and published in November 2010, travel and tourism sales in Rhode Island were $4.99 billion. This generated 42,160 jobs or 9.2 percent of total state employment, and $1.28 billion in employee compensation. Visitation to Rhode Island fell 6.3 percent in 2009 to 16.18 million travelers. Leisure visitation fell by 2.2 percent while business travel experienced a 27.0 percent decline during 2009.

Business spending made up just over 23.0 percent of total expenditures in 2009, compared to just below 13.0 percent of total visits. Business expenditures were down 13.0 percent in 2009, mainly due to a high concentration in accommodations and transportation (the lowest performing statewide category) and a low concentration in shopping (the best performing statewide category).

Leisure spending fell over 8.5 percent in 2009, which is a faster rate of decline than leisure visitation, with leisure visitors cutting back on spending in categories like shopping and entertainment. Looking forward, IHS Global Insight forecasts total U.S. leisure travel to rebound quicker and more significantly than business travel, which should benefit R.I. as the concentration of leisure visitors is higher here than in the entire U.S.

Travel and tourism industry expenditures decreased in 2009 by 5.5 percent. The entertainment sector had the least percentage decrease in 2009 to 1.7 percent. Accommodation sales decreased by 7.4 percent, while transportation decreased by 8.3 percent. The food sector also had a decrease of 2.3 percent. The shopping sector had the only increase in 2009 to 5.9 percent. Travel and tourism annual salary grew by 0.1 percent to an average of $25,400/year. While tourism is responsible for 5.0 percent of Rhode Island GSP; it contributed 8.9 percent of all state government revenue in 2009.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1994. The ratio of Rhode Island spending to the national average has varied from 127.2 percent in 1993-94 to a high of 144.3 percent in 2007-08. For the 2007-08 academic year Rhode Island spent 44.3 percent more on public elementary and secondary education than the United States average: $15,843 per student compared to a national average of $10,981 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1993-94 academic year. It should be noted that data for the 2007-08 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1993-94 - 2007-08
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,778	142.3%
2006-07	14,674	10,337	142.0%
2007-08	15,843	10,981	144.3%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

For the 2007-08 academic year, Rhode Island per pupil expenditures was the fifth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2007-08
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	20,807	26	Montana	10,541
2	New York	18,423	27	Oregon	10,487
3	New Jersey	18,174	28	Georgia	10,263
4	Alaska	16,002	29	Missouri	10,007
5	**Rhode Island**	**15,843**	30	Colorado	9,977
6	Vermont	15,089	31	Kentucky	9,940
7	Connecticut	15,063	32	Washington	9,846
8	Wyoming	14,936	33	South Carolina	9,823
9	Massachusetts	14,349	34	Florida	9,711
10	Maryland	14,099	35	California	9,673
11	Maine	13,177	36	North Dakota	9,637
12	Delaware	12,789	37	Indiana	9,569
13	Hawaii	12,774	38	Arkansas	9,460
14	Pennsylvania	12,493	39	New Mexico	9,377
15	New Hampshire	12,280	40	Alabama	9,345
16	Illinois	11,624	41	Iowa	9,128
17	Virginia	11,410	42	South Dakota	9,047
18	Ohio	11,374	43	Texas	9,029
19	Wisconsin	11,370	44	Nevada	8,891
20	Nebraska	11,217	45	Arizona	8,630
21	Michigan	11,155	46	Tennessee	8,459
22	Kansas	11,053	47	Mississippi	8,448
23	Louisiana	10,797	48	North Carolina	8,415
24	Minnesota	10,650	49	Oklahoma	8,270
25	West Virginia	10,605	50	Idaho	7,402
			51	Utah	6,841

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

According to the Rhode Island Office of Higher Education, in fall 2009, the total enrollment in Rhode Island institutions of higher education was 84,673 students, up 2.5 percent from the 82,635 students from 2007. Enrollment in the public sector totaled 43,409 (51 percent) and 41,264 in the independent sector (49 percent).

In 2009, Rhode Island institutions of higher education conferred 17,819 degrees and certificates. Rhode Island public institutions conferred 5,917 (33 percent) awards while the private sector conferred 11,902 (67 percent).

APPENDIX B

Proposed Form of Legal Opinion

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $31,980,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2011 Series A) (the "Certificates")

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of July 1, 2011 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of July 1, 2011 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, 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 July 1, 2011 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, 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 2011 Series A Sublease) and other amounts received pursuant to the 2011 Series A Sublease has been granted to the Trust for the benefit of the owners (the "Certificate Owners") of the $31,980,000 Lease Participation Certificates (Energy Conservation Project – 2011 Series A) (the "Certificates") issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated July 20, 2011, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • LEASE PARTICIPATION CERTIFICATES (ENERGY CONSERVATION PROJECT – 2011 SERIES A)

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