

**NEW ISSUE/BOOK-ENTRY-ONLY****Ratings:**Moody's: *MIG-1*Standard & Poor's: *SP-1+*Fitch: *F1+*

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

**\$120,000,000**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
General Obligation Tax Anticipation Notes  
Fiscal Year 2007**

**Dated:** Date of Delivery**Due:** June 29, 2007

The Notes will be issued as fully registered notes and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Notes will be made in book-entry form only, in denominations of \$1,000 or any integral multiple thereof and no physical delivery of the Notes will be made to purchasers. So long as Cede & Co. is the registered owner of the Notes, principal and interest are payable to DTC by The Bank of New York Trust Company, N.A., as Paying Agent. Interest on the Notes is payable on June 29, 2007 at the rate shown below. The Notes constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. The Notes are not subject to redemption prior to maturity.

| <u>No.</u> | <u>Principal<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Reoffering<br/>Yield</u> | <u>CUSIP No.</u> |
|------------|-----------------------------|--------------------------|-----------------------------|------------------|
| R-1        | \$120,000,000               | 4.25%                    | 3.52%                       | 76222RDH2        |

The Notes are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Partridge Snow & Hahn LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Adler Pollock & Sheehan P.C., Providence, Rhode Island. First Southwest Company, Lincoln, Rhode Island, is serving as financial advisor to the State on this transaction. Delivery of the Notes to DTC is expected in New York, New York or at its custodial agent, on or about December 21, 2006.

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

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

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

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

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS



**CONSTITUTIONAL OFFICERS**

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

**APPOINTED OFFICIALS**

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

**BOND COUNSEL**

Partridge Snow & Hahn LLP, Providence, Rhode Island

**DISCLOSURE COUNSEL**

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

**FINANCIAL ADVISOR**

First Southwest Company, Lincoln, Rhode Island

## OFFICIAL STATEMENT

**\$120,000,000**  
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**General Obligation Tax Anticipation Notes**  
**Fiscal Year 2007**

### INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its \$120,000,000 General Obligation Tax Anticipation Notes, Fiscal Year 2007 (the "Notes") dated their date of delivery.

### SECURITY FOR THE NOTES

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

Each Note when issued and paid for will constitute a contract between the State and the owner thereof. The General Laws of Rhode Island provide that the General Treasurer may pay debt service on State debt without the need for an annual appropriation (as would be required for other payments from the State treasury).

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

### DESCRIPTION OF THE NOTES

#### General

The Notes will be dated their date of delivery and will bear interest at the rate set forth on the cover page hereof. Principal of and interest on the Notes will be payable on June 29, 2007. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Noteholder, such payments will be made directly to such Noteholder. Disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months.

**The Notes are not subject to redemption prior to Maturity.**

#### Authorization and Purpose

Under the Constitution of Rhode Island, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people, except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. By judicial interpretation, the limitation stated above has been judged to include all debts of the State for which its full faith and credit are pledged.

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

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

Rhode Island General Laws § 35-3-23 (the “Interfund Transfer Act”) permits the Governor to make interfund transfers from the State Temporary Disability Fund and the Intermodal Surface Transportation Fund to the General Fund to cover temporary cash shortages in the General Fund. A transfer of approximately \$50,000,000 was made from the State Temporary Disability Fund to the General Fund on December 1, 2006 to cover temporary cash shortages prior to the date of issuance of the Notes. It is anticipated that these funds will be repaid by December 31, 2006. Pursuant to the Interfund Transfer Act, this transfer, and any transfers made in Fiscal Year 2007, must be repaid with interest by June 30, 2007.

Under the authority and pursuant to the provisions of Chapter 246 of the Public Laws of 2006 passed by the Rhode Island General Assembly, the General Treasurer has the authority, with the advice of the Governor, to borrow up to \$250,000,000 in the aggregate outstanding at any one time in anticipation of taxes to be received in fiscal year 2007. The notes described herein will be issued as a result of such authorization.

### **Application of Proceeds**

The proceeds received from the sale of the Notes will be deposited in the General Fund of the State and will be applied to general expenses of the State. The cash flow projection for the General Fund of the State is set forth in the Fiscal Year 2007 General Fund Cash Flow Analysis (See Appendix B).

### **Book-Entry-Only System**

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

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Fully registered certificates will be issued in the aggregate principal amount of the Notes, and will be deposited with DTC.

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

on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

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

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

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

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

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

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

### **RATINGS**

The Notes have been assigned ratings by Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard and Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. (“Standard & Poor’s”) (collectively, the “Rating Agencies”) as shown on the cover page hereof. Such ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained from the rating agency furnishing the same. There is no assurance that the ratings given the Notes by the Rating Agencies will be maintained for any given period of time or that they may not be revised downward or withdrawn entirely. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

### **LEGAL MATTERS**

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

### **TAX STATUS**

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

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

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

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

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

### **Note Premium**

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

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

## **LITIGATION**

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

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

## **MISCELLANEOUS**

### **Certification of the Notes**

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

## Financial Advisor

First Southwest Company is employed as Financial Advisor to the State in connection with the issuance of the Notes. The Financial Advisor's fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery of the Notes, and receipt by the State of payment therefor. The State has consented to the participation by First Southwest Company in the public bidding for the Notes, should First Southwest Company choose to do so.

## CONTINUING DISCLOSURE

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

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

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

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

The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Notes, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

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

Except as noted in the next sentence, the State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In

February 2005, the State submitted its annual disclosure related to Motor Fuel Tax Revenue Bonds and GARVEE Bonds approximately seventeen (17) days late. The State has implemented procedures to insure timely filing in the future.

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

#### **ADDITIONAL INFORMATION**

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated December 1, 2006 and the Basic Financial Statements of the State, as of and for the year ended June 30, 2005, both of which have been prepared and furnished by the State and which are included in Appendix A.

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

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

STATE OF RHODE ISLAND AND PROVIDENCE  
PLANTATIONS

By: /s/ Paul J. Tavares

Paul J. Tavares  
General Treasurer

Dated: December 14, 2006

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**APPENDIX A – Information Statement of the State**

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

**DATED: December 1, 2006**

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## STATE GOVERNMENT ORGANIZATION AND FINANCES

### General Information

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

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

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

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

### Municipalities

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

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

provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligations bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

During the 2006 session of the General Assembly, significant amendments to 44-5-2 were enacted. The amendments progressively reduce the maximum property tax levy from a 5.5% increase over the prior year levy to 4% in the year 2013 while expanding and clarifying exemptions from the property tax cap. The previous property tax limitation applied a 5.5% cap on the tax rate or the levy. In those municipalities where a city or town council has final tax levy approval, a four fifths vote would be required to exceed the applicable cap. The act also capped the amount of funds requested by a school committee of a city or town at the same rate of increase as the maximum tax levy increase. The act also broadened the definition of State mandates on municipalities and restricted the flexibility of the Governor or Legislature to forego reimbursement of State mandates. Lastly, the bill requires the "Office of Municipal Affairs" to complete a study by November 15, 2006 of tax treaties, exemptions and freezes currently applying in municipalities throughout the State. The study has been completed.

### ***Local Tax Relief***

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. Local communities are to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The final FY 2007 budget provides that a fixed dollar amount (\$64.7 million) will be distributed as general revenue sharing with an increase of 3.4% of general revenues in FY 2008. Despite these delays and proposed freezes, the local reduction in the levy on inventories has continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2007, the first \$6,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which are expected to yield additional lottery revenues to the State. Most additional revenues are dedicated to tax relief. It is expected that these enhanced revenues will result in the elimination of the motor vehicle excise tax by FY 2010, and provides additional property tax relief by dedicating funds to the general revenue sharing and distressed communities program.

### ***State Aid to Local Communities***

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

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or

from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled \$18.1 million. The FY 2007 Enacted Budget provides \$49.7 million for this category of aid, an increase of over 170 percent since FY 1997. A related program will provide approximately \$2.7 million in FY 2007 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2007 Enacted Budget includes \$65.2 million for this program.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2007 Enacted Budget includes \$27.8 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of \$10.9 million were made for FY 2007 to fund entitlements for seven communities. Of these seven communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at \$12.2 million for FY 2007.

### **Principal Governmental Services**

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

#### ***General Government***

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

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

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

Administration, including the Division of Taxation, Motor Vehicles, Child Support Enforcement, Lottery Commission, and the Office of Municipal Affairs.

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

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

### ***Human Services***

*Human Services* includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs, care of the disabled by the Department of Mental Health, Retardation and Hospitals, child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services, and financial assistance, health care and social services provided by the Department of Human Services. The FY 2007 budget includes the Office of Health and Human Services, a separate department which will coordinate the human services functions through a secretariat.

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

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

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

*Department of Mental Health, Retardation and Hospitals.* The Department of Mental Health, Retardation, and Hospitals (MHRH) provides services which may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. The Department either provides these services directly through the Eleanor Slater Hospital system which operates at two sites, the Cranston Unit and the Zambarano Unit, and the Rhode Island Community Living and Supports System

(RICLAS), or provides them through contracts with private, non-profit hospitals, and agencies. The Department organizes, sets standards, monitors and funds programs primarily according to the nature of a client's disability. Mental health services help people who have psychiatric disorders and severe mental illness such as manic depression or schizophrenia. Mental retardation and developmental disabilities services assist individuals whose handicap is often accompanied by disabilities like cerebral palsy, epilepsy, autism, behavioral problems and other physical and mental conditions. MHRH hospitals provide long term care for people who need medical treatment and nursing care for problems associated with chronic illness. The Department also provides substance abuse prevention and treatment services in addition to gambling addiction services.

### ***Education***

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

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

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

### ***Public Safety***

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

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

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

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

## ***Natural Resources***

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

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

## ***Transportation***

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

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

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

## **State Fund Structure – Accounting Basis**

The accounting system of the State, and that of most of the public authorities and corporations described herein, is organized and operated on a fund basis. Financial operations are recorded on a fiscal year basis

(commencing July 1 and ending June 30). Individual funds have been established as separate fiscal and accounting entities to account for financial resources and related liabilities and equities. Financial statements of the State for each fiscal year are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

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

In anticipation of the issuance and implementation of GASB Statements 43 and 45, "*Other Post Employment Benefits*," in December 2003, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2002 was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimate rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking in account the pension reform provisions impacting the State and teacher systems which were enacted during the 2005 session of the General Assembly.

### **Budget Procedures**

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

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

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

The General Laws of the State provide that, if the General Assembly fails to pass the annual appropriation bill, the same amounts as were appropriated in the prior fiscal year shall be automatically available for expenditure,

subject to monthly or quarterly allotments as determined by the State Budget Officer. Expenditures for general obligation bond indebtedness of the State shall be made as required regardless of the passage of the annual budget or the amount provided for in the prior fiscal year.

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

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of general fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The Rhode Island Capital Fund can be used for capital projects or debt reduction or debt service payments. The FY 2006 budget reserve account balance was approximately \$95.2 million.

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

### **Financial Controls**

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

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

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

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

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

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

## GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2005 reflect final audited revenues.

### Major Sources of State Revenue

**Tax Revenues:** Approximately 69.1 percent of all taxes and departmental receipts in FY 2005 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 60.8 percent of all general revenues.

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

Included in the FY 2007 budget, the General Assembly authorized the Rhode Island Economic Development Corporation to borrow an amount up to \$14,000,000 to invest in or acquire an interest in an entity or entities which otherwise would have utilized historic tax credits of a value of no less than \$24,000,000 in connection with the historic Masonic Temple located in the Capitol Center District of Providence. Should the Rhode Island Economic Development Corporation be able to consummate these transactions, the net savings to the State would be approximately \$8,000,000 over the period of time in which those tax credits may otherwise have been used.

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%) percent of its certified production costs for activities occurring within the State. The tax credits can be applied against State corporate tax, bank tax, insurance company tax, personal income tax, and financial institution excise tax. 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) 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.

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

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

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

In addition to the changes in Rhode Island personal income tax rates, the 1997 General Assembly passed legislation that increased the Investment Tax Credit from 4.0 percent to 10.0 percent effective January 1, 1998. It also increased the Research and Development Tax Credit from 5.0 percent to 22.5 percent beginning in tax year 1998. As discussed above under "Tax Revenues", the 2001 Session of the General Assembly passed enabling legislation for the State's Historic Structures Tax Credit which reduces personal income tax revenues.

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

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

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

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

During its 2006 session, the General Assembly amended Chapter 44-30 of the Rhode Island General Laws entitled "Personal Income Tax", adding Section 44-30-2.10 to provide for an alternative flat tax election (the "Flat Tax Election"). The Flat Tax Election: (i) is available only to individuals; (ii) must be elected by the taxpayer; (iii) taxes all income (including capital gains) at a single flat tax rate; and (iv) is computed without the benefit of itemized deductions or exemptions like state income tax credits, including the historic and motion picture tax credits. The flat tax rate is eight (8%) percent for 2006; seven and one half (7.5%) percent for 2007; seven (7%) percent for 2008; six and one half (6.5%) percent for 2009; six (6%) percent for 2010; and five and one half (5.5%) percent for 2011 and thereafter. 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.

The Rhode Island personal income tax accounted for approximately \$979.1 million, or 32.6 percent, of the State's FY 2005 total general revenues. FY 2005 personal income tax collections rose not only in dollar amount but also in share of total general revenues from FY 2004.

*Sales and Use Tax.* The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing; (c) prescription and patent medicines; (d) fuel used in the heating of homes and residential premises; (e) domestic water usage; (f) gasoline and other motor fuels otherwise specifically taxed; (g) sales of tangible property and public utility services

when the property or service becomes a component part of a manufactured product for resale, or when the property or service is consumed directly in the process of manufacturing or processing products for resale and such consumption occurs within one year from the date such property is first used in such production; (h) tools, dies and molds and machinery and equipment, including replacement parts thereof, used directly and exclusively in an industrial plant in the actual manufacture, conversion or processing of tangible personal property to be sold; (i) sales of air and water pollution control equipment for installation pursuant to an order by the State Director of Environmental Management; and (j) sales of boats or vessels.

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

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

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

The sales and use tax accounted for approximately \$847.7 million, or 28.2 percent, of the State's FY 2005 total general revenues. FY 2005 final sales and use tax collections rose in dollar terms but fell in share of total general revenues from FY 2004.

*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. As discussed above under "Tax Revenues", the State's Historic Structures Tax Credits and Motion Picture Production Tax Credits can be used to offset the business corporation tax liability of a taxpayer.

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

Corporations dealing in securities on their own behalf, whose gross receipts from such activities amount to at least 90.0 percent of their total gross receipts, have been exempt from the net worth computation but are required to pay the 9.0 percent income tax. Regulated investment companies and real estate investment trusts and personal

holding companies pay a tax at the rate of 10 cents per \$100 of gross income or \$100, whichever is greater. Such corporate security dealers, investment companies, investment trusts and personal holding companies are allowed to deduct from net income 50.0 percent of the excess of capital gains over capital losses realized during the taxable year when computing the tax.

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

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

The business corporation tax accounted for approximately \$116.0 million, or 3.9 percent, of the State's FY 2005 total general revenues. FY 2005 final business corporations tax collections rose both in dollar terms and in the share of total general revenues from FY 2004.

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

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

The health care provider assessment accounted for approximately \$46.8 million, or 1.6 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the health care provider assessment between FY 2005 and FY 2004.

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

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

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

The public service corporation tax accounted for approximately \$86.4 million, or 2.9 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2005 and FY 2004.

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

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

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

In 1999, the General Assembly amended the investment tax credit provisions to extend the 10.0 percent credit to property located in Rhode Island no matter how the property was acquired by property and casualty insurance companies. This made the credit applicable to equipment transferred into the State by companies from other states. As discussed above under "Tax Revenues", the State's Historic Structures Tax Credits and Motion Picture Production Tax Credits can be used to offset the gross premiums tax of insurance companies.

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

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

The insurance companies' tax accounted for approximately \$53.3 million, or 1.8 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the tax on insurance companies between FY 2005 and FY 2004.

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

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

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

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

As discussed above under "Tax Revenues", the State's Historic Structures Tax Credit and Motion Picture Production Tax Credits can be used to offset the excise tax owed by financial institutions.

Because of significant taxpayer refunds in FY 2005, the financial institutions tax accounted for negative revenues of approximately \$1.5 million, netted from the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the financial institutions excise tax between FY 2005 and FY 2004.

*Banking Institutions Interest Bearing Deposits Tax.* The bank interest bearing deposits tax was eliminated for state and national banks beginning January 1, 1998 and thereafter. A tax rate on deposits held by credit unions continues to apply with a rate of 0.0348 cents for each \$100 for institutions with over \$150 million in deposits and a rate of 0.0313 cents for each \$100 applying to credit unions with less than \$150 million in deposits.

The bank deposits tax accounted for approximately \$1.5 million, or 0.1 percent, of the State's FY 2005 total general revenues. The dollar amount of bank deposits taxes was less in FY 2005 versus FY 2004 while its share of total general revenues remained the same.

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

The estate tax accounted for approximately \$33.0 million, or 1.1 percent, of the State's FY 2005 total general revenues. The dollar amount of estate taxes and share of total general revenues was more in FY 2005 versus FY 2004.

*Cigarette Tax.* The State's cigarette tax is comprised of a cigarette stamp tax, a cigarette floor stock tax, and a tax on the wholesale price of cigars, pipe tobacco, etc. The cigarette stamp tax generates over 95 percent of the total cigarette taxes collected by the State.

The cigarette stamp tax rate has increased consistently over the last several years. In FY 1998 the cigarette excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette excise tax rate was increased to \$1.00 per pack on July 1, 2001 and then to a \$1.32 a pack effective May 1, 2002. On July 1, 2003, the cigarette excise tax rate was increased to \$1.71 a pack. Finally, on July 1, 2004, it was increased by 75 cents to \$2.46 per pack of 20 cigarettes. The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past five years, although not as frequently as the cigarette stamp tax. On July 1, 2001, the other tobacco products tax was increased from 20.0 percent of the wholesale price of other tobacco products to 30.0 percent of the same. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products.

In the 2005 Session, the General Assembly concurred with Governor Carcieri's proposal to require cigarette wholesale distributors to pay the retail sales tax on cigarettes at the time that cigarette excise tax stamps are

purchased. The amount of the retail sales tax to be prepaid is based on the state minimum price of a pack of major brand cigarettes.

The cigarette tax accounted for approximately \$136.3 million, or 4.5 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2005 and FY 2004.

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

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

The transfer of the motor fuel tax to the General Fund accounted for approximately \$9.0 million, or 0.3 percent, of the State's FY 2005 total general revenues. The dollar amount of the motor fuel tax increased between FY 2005 and FY 2004 transfer and its share of total general revenues remained stable between FY 2005 and FY 2004. It should be noted that \$14.3 million of FY 2003 motor fuel taxes collected represented the Department of Transportation's repayment of the debt service savings it reaped from the defeasance of some of its outstanding debt via the securitization of the State's future tobacco Master Settlement Agreement payments.

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

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

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

In the 2005 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license fees effective July 1, 2005 by enacting Chapter 117 of the Public Laws of 2005, Article 24, Substitute A.

Other taxes accounted for approximately \$76.1 million, or 2.5 percent, of the State's FY 2005 total general revenues. FY 2005 other tax collections rose in dollar terms but fell in share of total general revenues from FY 2004.

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

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

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

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

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

Departmental Receipts were approximately \$268.0 million, or 8.9 percent, of the State's total general revenue in FY 2005. FY 2005 departmental receipts fell on both a nominal basis and as a share of total general revenues when compared to FY 2004.

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

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Lincoln Park and 800 at Newport Grand), provided that the facilities invest \$145.0 million in structural and operational upgrades and expansions within the next three years (\$125.0 million at Lincoln Park and \$20.0 million at Newport Grand). The master contract for Lincoln Park freezes the share of video lottery NTI that is allocated to the facility from existing video lottery terminals at 28.85% and from additional video lottery terminals at 26% (which rates are subject to certain adjustments based on the Consumer Price Index in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26%.

Lottery transfers to the General Fund totaled \$307.5 million, which accounted for 10.2 percent of the State's total general revenues in FY 2005. The dollar amount of the lottery transfer increased between FY 2005 and FY 2004. The lottery transfers to the General Fund share of total general revenues remained the same between FY 2005 and FY 2004.

The next largest component of Other Sources is the Other Miscellaneous category. This category includes the State's Tobacco Master Settlement Agreement (MSA) payments as well as operating transfers to the General Fund from the proceeds of the State's securitization of its future tobacco MSA payments. The former totaled \$52.7 million and the later \$113.5 million for a total of \$166.2 million in tobacco settlement monies utilized in FY 2003. In FY 2004, tobacco Master Settlement Agreement payments totaled \$453,661 while tobacco securitization proceeds were \$1.45 million, or a total of \$1.9 million in tobacco settlement monies. In FY 2005, tobacco settlement monies were not utilized as an Other Source for State general revenues.

The total amount of Other Miscellaneous monies received was approximately \$28.2 million, which accounted for 0.9 percent of the State's audited FY 2005 total general revenues. For FY 2004, these amounts were \$19.7 million and 0.7 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was \$9.0 million in FY 2005.

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

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

Unclaimed property transfers totaled \$15.6 million in FY 2005 and accounted for 0.5 percent of the State's total general revenues for FY 2005. Both the dollar amount of the unclaimed property transfer and its share of total general revenues decreased between FY 2005 and FY 2004.

*Restricted Receipts.* In FY 2005, the State expended \$101.2 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 2005, the State expended \$1.850 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 based upon a percentage of expenditures or in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), Temporary Assistance to Needy Families (TANF), and State Children's Health Insurance Programs – SCHIP (Title XXI). The federal participatory rates for Titles XIX and XXI are recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2004 to September 30, 2005, the rate is 55.38 percent. For the period October 1, 2005 to September 30, 2006, the rate is 54.45 percent. For the period October 1, 2006 to September 30, 2007, the rate is 52.35 percent.

## ECONOMIC FORECAST

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

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

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

At the November 2006 Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, dividends, interest and rent, the unemployment rate, the U.S. consumer price index, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables was expanded to include the relevant calendar years and extended to cover the period from 2006 through 2012.

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

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

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

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

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

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

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

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

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

### FY 2007 AND FY 2008 REVENUE ESTIMATES

As a result of the November 2006 Revenue Estimating Conference, the Conferees revised the revenue estimates for FY 2007 reflected in the enacted budget (the "Enacted FY 2007 Estimates") and established revenue estimates for FY 2008 (the "FY 2008 Estimates"). The revised estimates for FY 2007 (the "Revised FY 2007 Estimates") and the estimates for FY 2008 are shown in the table entitled "*General Revenue Receipts*". The consensus estimates reflect current projections for the Rhode Island economy and are based on current statutory provisions with respect to rates and assessments, including the expiration of the hospital licensing fee in FY 2007 and the impact of historic preservation tax credits and motion picture production tax credits on revenue collections.

#### *Revised FY 2007 Estimates versus Enacted FY 2007 Estimates and Preliminary FY 2006 Collections*

**Total General Revenues.** The Revised FY 2007 Estimate for general revenue is \$3.190 billion, \$74.2 million, or 2.3 percent, less than the Enacted FY 2007 Estimate of \$3.264 billion. This reflects a growth rate of \$46.5 million, or 1.5 percent, over preliminary FY 2006 total general revenues of \$3.143 billion. In contrast, the Enacted FY 2007 Estimate for general revenues showed growth of \$120.7 million over preliminary FY 2006 total general revenues. The Revised FY 2007 Estimate also reduces other general revenue sources, including departmental receipts and the lottery transfer to the general fund, by \$78.7 million from the Enacted FY 2007 Estimate of \$735.4 million.

**Personal Income Tax.** Personal income taxes are the largest single source of revenue for the State. The Revised FY 2007 Estimate for personal income taxes is \$1.068 billion, representing growth of 7.2 percent from preliminary FY 2006 personal income tax collections and 1.6 percent from the Enacted FY 2007 Estimate. Changes in the following two income tax components, which resulted from the Revised FY 2007 Estimate, contributed significantly to this increase: (1) withholding payments at 8.0 percent above preliminary FY 2006 and 1.0 percent above the Enacted FY 2007 Estimate; and (2) estimated payments at 7.6 percent above preliminary FY 2006 payments and 7.7 percent above the Enacted FY 2007 Estimate. These components had shown slowing growth since FY 2005. In arriving at the Revised FY 2007 Estimate for personal income taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

**General Business Tax.** The Revised FY 2007 Estimate of general business tax collections is \$338.0 million, a decrease of 8.1 percent from preliminary FY 2006 collections of \$367.6 million. However, the Revised FY 2007 Estimate is \$18.4 million above the Enacted FY 2007 Estimate of \$319.6 million, a growth rate of 5.8 percent. The Revised FY 2007 Estimate for corporate income taxes is \$137.6 million, an increase of 12.4 percent over the Enacted FY 2007 Estimate of \$122.3 million, but a decrease of 17.3 percent over preliminary FY 2006. Contributing to this estimated decrease are health provider assessments, which are projected to grow by 3.2 percent over preliminary FY 2006 collections. In arriving at the Revised FY 2007 Estimate for business taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

**Sales and Use Tax.** The State's second largest revenue source remains the sales and use tax. The Revised FY 2007 Estimate for sales and use tax collections is \$895 million, an increase of \$24.9 million, or 2.9 percent, over preliminary FY 2006 collections, but a decrease of 2.8 percent, or \$25.8 million, from the Enacted FY 2007 Estimate. The decrease in sales tax collections from the Enacted FY 2007 Estimate reflects weakening fiscal year-to-date sales tax collections believed to be caused by a slowdown in consumer spending on major purchases such as cars, which are subject to the Rhode Island sales tax.

**Other Sales and Use Taxes.** Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The Revised FY 2007 Estimate for other sales and use taxes is \$181.7 million, a decrease of \$4.2 million, or 2.3 percent, from the Enacted FY 2007 Estimate and a decrease of \$8.4 million, or 4.4 percent, from the preliminary FY 2006 collections. The difference between the Revised FY 2007 Estimate and the Enacted FY 2007 Estimate is due to a decrease of \$2.0 million in motor vehicle fees and a decrease of \$2.1 million in cigarette taxes. The decrease in motor vehicle fees is directly related to the decline in car and light truck sales over the past year. The decrease in cigarette tax collections is believed to be the result of consumption declines due to higher cigarette prices as well as illegal sales of cigarettes without official stamps.

**Inheritance, Racing and Athletics, and Realty Transfer Taxes.** The Revised FY 2007 Estimate for inheritance, racing and athletics, and realty transfer taxes is \$49.4 million, which is \$973,614, or 1.9 percent, below the Enacted FY 2007 Estimate and \$8.1 million below preliminary FY 2006 collections. The decrease from the Enacted FY 2007 Estimate is primarily a result of the Conferees' decision to decrease the estimate for realty transfer tax collections by \$1.2 million. The Conferees based this decision on fiscal year-to-date collections and forecasted price and volume declines in the local housing market.

**Departmental Receipts.** Departmental receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The Revised FY 2007 Estimate for departmental receipts is \$295.2 million, which is \$1.2 million, or 0.4 percent, below the Enacted FY 2007 Estimate and \$7.8 million, or 2.7 percent, above preliminary FY 2006 collections.

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

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

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

#### *FY 2008 Estimates versus Revised FY 2007*

**Total General Revenues.** The FY 2008 Estimate for total general revenues is \$3.256 billion, an increase of \$66 million over the Revised FY 2007 Estimate. The FY 2008 Estimate for total taxes is \$2.574 billion, an increase of 1.6 percent over the Revised FY 2007 Estimate. The FY 2008 Estimate for other general revenue sources, including departmental receipts and the lottery transfer to the general fund, is \$681.6 million, an increase of \$24.9 million over the Revised FY 2007 Estimate.

**Personal Income Taxes.** Personal income taxes are the largest single source of revenue for the State. The FY 2008 Estimate for personal income taxes is \$1.088 billion, representing growth of 1.8 percent above the Revised FY 2007 Estimate. This growth is due in large part to an estimated increase in income tax withholding payments of 4.4 percent from the Revised FY 2007 Estimate. The increased income tax withholding payments were offset by a 6.6 percent decrease in income tax estimated payments from the Revised FY 2007 Estimate. In arriving at the FY 2008

Estimate for personal income taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

**General Business Tax.** The FY 2008 Estimate for general business tax collections is \$328.8 million, a decrease of 2.7 percent from the Revised FY 2007 Estimate of \$338.0 million. The primary factor for the estimated decrease in general business taxes is that business corporation taxes are estimated to decrease by 17.3 percent from FY 2007. This decrease more than offsets the modest gains forecasted for the other general business tax components. The primary reason for the decrease is the expected discontinuance of excessively high payments in FY 2007. In arriving at the FY 2008 Estimate for general business taxes, the Conferees considered the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

**Sales and Use Tax.** The State's sales and use tax is projected to be the second largest revenue source in FY 2008. The FY 2008 Estimate for sales tax revenues is \$929.5 million, an increase of \$34.5 million, or 3.9 percent, over the Revised FY 2007 Estimate. The increase in the FY 2008 Estimate is mostly due to an expectation that, after the fallout from the housing market, there will be a rebound in the overall state economy.

**Other Sales and Use Taxes.** Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The FY 2008 Estimate for other sales and use taxes is \$178.9 million, a decrease of \$2.8 million, or 1.5 percent, from the Revised FY 2007 Estimate. The difference between the Revised FY 2007 Estimate and the FY 2008 Estimate is due to a decrease of \$4.5 million in cigarette taxes.

**Inheritance, Racing and Athletics, and Realty Transfer Taxes.** The FY 2008 Estimate for inheritance, racing and athletics, and realty transfer taxes is \$49.4 million. There is no overall difference between the Revised FY 2007 Estimate and the FY 2008 Estimate for this group of taxes. Individually, however, racing and athletics taxes and realty transfer taxes are heading in a different direction. For instance, the increase of \$300,000 in the FY 2008 Estimate for realty taxes from the Revised FY 2007 Estimate is offset by the decrease of \$300,000 for racing and athletics taxes. Inheritance taxes are expected to remain at the same levels for FY 2008 as estimated for FY 2007.

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

**Other Source Revenues.** The FY 2008 Estimate for other source revenues is \$445.3 million, an increase of \$83.8 million from the Revised FY 2007 Estimate. This overall increase in estimated other source revenues is a result of an increase in the following components for FY 2008: (1) other miscellaneous revenues by \$65.0 million; (2) the estimated lottery transfer by \$16.7 million; and (3) unclaimed property estimates by \$2.1 million.

- *Other Miscellaneous Revenues.* The FY 2008 Estimate for other miscellaneous revenues includes \$80.0 million anticipated from the AIG settlement, including \$40.0 million shifted from FY 2007 and \$40.0 million planned for FY 2008.

- *Lottery Transfer.* The FY 2008 Estimate for the lottery transfer is \$337.7 million, an increase of 5.2 percent from the Revised FY 2007 Estimate. The lottery transfer figure is derived in part by transfers to the general fund from video lottery terminals. The FY 2008 Estimate for growth in transfers to the general fund from video lottery terminals is \$269.1 million, 5.5 percent above the Revised FY 2007 Estimate for such revenues. The growth from FY 2007 to FY 2008 includes the expected impact from the introduction of additional video lottery terminals at Lincoln Park in FY 2008.

## COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2005 through 2007 and expenditures for the fiscal years 2005 through 2007. General Fund data on expenditures for FY 2005 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditures for fiscal year 2006 reflect preliminary actual expenditures contained in the State Controller's preliminary closing report for the fiscal year ended June 30, 2006. Expenditures for FY 2007 reflect the budget enacted by the General Assembly, as adjusted by projected changes to expenditures as contained in the State Budget Office's first quarterly report dated November 15, 2006. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources. The expenditure tables in the "Redistributions" column restate amounts classified by the Controller as "operating transfers," or amounts received by or transferred to other funds, as expenditures.

General Fund revenues for FY 2005 reflect the audited actual revenues as reported by the State Controller. FY2006 revenues reflect revenues reported in the State Controller's preliminary closing report for the fiscal year ended June 30, 2006. FY 2007 revenues reflect both the budget enacted by the General Assembly and as revised upon consensus estimates of the Revenue Estimating Conference in November 2006. These estimates are explained under the section above entitled *FY 2007 and FY 2008 Revenue Estimates* and the subheading below entitled *Free Surplus*.

## General Revenue Receipts

|                                 | FY 2005<br>Actual      | FY 2006<br>Preliminary* | FY 2007<br>Enacted     | FY 2007<br>Revised     | FY 2008                |
|---------------------------------|------------------------|-------------------------|------------------------|------------------------|------------------------|
| <b>Personal Income Tax</b>      | \$979,082,106          | \$996,792,298           | \$1,051,789,361        | \$1,068,800,000        | \$1,087,600,000        |
| <b>General Business Taxes</b>   |                        |                         |                        |                        |                        |
| Business Corporations           | 116,026,739            | 166,230,970             | 122,290,936            | 137,500,000            | 129,000,000            |
| Public Utilities Gross Earnings | 86,357,789             | 96,027,349              | 99,300,000             | 96,700,000             | 95,900,000             |
| Financial Institutions          | (1,480,365)            | 3,988,509               | (6,200,000)            | 1,000,000              | 1,000,000              |
| Insurance Companies             | 53,333,488             | 52,877,704              | 52,700,000             | 52,700,000             | 51,700,000             |
| Bank Deposits                   | 1,524,111              | 1,494,366               | 1,600,000              | 1,600,000              | 1,600,000              |
| Health Care Provider Assessme   | 46,827,408             | 47,002,360              | 49,864,000             | 48,500,000             | 49,600,000             |
| <b>Sales and Use Taxes</b>      |                        |                         |                        |                        |                        |
| Sales and Use                   | 847,726,627            | 870,131,045             | 920,774,717            | 895,000,000            | 929,500,000            |
| Motor Vehicle                   | 47,137,097             | 52,625,943              | 50,000,000             | 48,000,000             | 49,000,000             |
| Motor Fuel                      | 1,961,280              | 53,635                  | 1,106,029              | 1,000,000              | 1,100,000              |
| Cigarettes                      | 136,342,162            | 126,522,196             | 123,791,000            | 121,700,000            | 117,500,000            |
| Alcohol                         | 10,536,807             | 10,870,193              | 11,000,000             | 11,000,000             | 11,300,000             |
| <b>Other Taxes</b>              |                        |                         |                        |                        |                        |
| Inheritance and Gift            | 32,980,957             | 39,383,663              | 32,073,614             | 32,500,000             | 32,500,000             |
| Racing and Athletics            | 3,990,803              | 3,489,811               | 3,300,000              | 3,100,000              | 2,800,000              |
| Realty Transfer                 | 14,423,038             | 14,591,822              | 15,000,000             | 13,800,000             | 14,100,000             |
| <b>Total Taxes</b>              | <b>\$2,376,770,047</b> | <b>\$2,482,081,864</b>  | <b>\$2,528,389,657</b> | <b>\$2,532,900,000</b> | <b>\$2,574,200,000</b> |
| <b>Departmental Receipts</b>    | <b>\$267,952,890</b>   | <b>\$287,430,365</b>    | <b>\$296,432,332</b>   | <b>\$295,200,000</b>   | <b>\$236,300,000</b>   |
| <b>Taxes and Departmentals</b>  | <b>\$2,644,722,937</b> | <b>\$2,769,512,229</b>  | <b>\$2,824,821,989</b> | <b>\$2,828,100,000</b> | <b>\$2,810,500,000</b> |
| <b>Other Sources</b>            |                        |                         |                        |                        |                        |
| Gas Tax Transfer                | 9,022,662              | 4,322,195               | 4,927,335              | 4,685,000              | 4,685,000              |
| Other Miscellaneous             | 28,197,313             | 31,163,069              | 60,779,212             | 25,536,000             | 90,505,000             |
| Lottery                         | 307,549,646            | 323,899,490             | 362,500,000            | 321,000,000            | 337,700,000            |
| Unclaimed Property              | 15,617,732             | 14,243,183              | 10,800,000             | 10,300,000             | 12,400,000             |
| <b>Other Sources</b>            | <b>\$360,387,353</b>   | <b>\$373,627,937</b>    | <b>\$439,006,547</b>   | <b>\$361,521,000</b>   | <b>\$445,290,000</b>   |
| <b>Total General Revenues</b>   | <b>\$3,005,110,290</b> | <b>\$3,143,140,166</b>  | <b>\$3,263,828,536</b> | <b>\$3,189,621,000</b> | <b>\$3,255,790,000</b> |

\*Reflects actual data derived from the State Controller's preliminary closing report for FY2006.

## Expenditures from All Funds

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>General Government</b>                  |                        |                        |                        |                            |                           |
| Administration                             | \$523,788,176          | \$763,207,551          | \$564,837,458          | \$36,474,745               | \$601,312,203             |
| Business Regulation                        | 9,754,827              | 10,437,130             | 11,739,112             | (503,357)                  | 11,235,755                |
| Labor and Training                         | 447,983,389            | 437,643,844            | 455,819,840            | (158,761)                  | 455,661,079               |
| Legislature                                | 28,031,704             | 30,706,758             | 33,671,625             | (1,428,017)                | 32,243,608                |
| Lieutenant Governor                        | 848,006                | 900,055                | 963,012                | (47,835)                   | 915,177                   |
| Secretary of State                         | 8,593,464              | 11,873,341             | 8,444,162              | (202,185)                  | 8,241,977                 |
| General Treasurer                          | 36,348,161             | 37,344,071             | 29,095,958             | (120,872)                  | 28,975,086                |
| Boards for Design Professionals            | 379,272                | 381,196                | 390,153                | (16,252)                   | 373,901                   |
| Board of Elections                         | 2,569,068              | 2,392,934              | 3,335,139              | (72,162)                   | 3,262,977                 |
| Rhode Island Ethics Commission             | 969,234                | 1,156,118              | 1,297,421              | (56,377)                   | 1,241,044                 |
| Governor's Office                          | 4,362,965              | 4,929,962              | 5,044,144              | (233,765)                  | 4,810,379                 |
| Public Utilities Commission                | 4,817,830              | 5,179,216              | 6,912,981              | (18,513)                   | 6,894,468                 |
| Rhode Island Commission on Women           | 83,741                 | 89,442                 | 99,715                 | (4,340)                    | 95,375                    |
| Revenue                                    | -                      | -                      | 255,530,361            | (1,540,237)                | 253,990,124               |
| <b>Subtotal - General Government</b>       | <b>\$1,068,529,837</b> | <b>\$1,306,241,618</b> | <b>\$1,377,181,081</b> | <b>\$32,072,072</b>        | <b>\$1,409,253,153</b>    |
| <b>Human Services</b>                      |                        |                        |                        |                            |                           |
| Office of Health & Human Services          | -                      | -                      | 770,120                | (13,707)                   | 756,413                   |
| Children, Youth, and Families              | 263,113,618            | 285,549,240            | 293,117,043            | (2,758,533)                | 290,358,510               |
| Elderly Affairs                            | 42,036,630             | 44,439,520             | 38,769,310             | (142,969)                  | 38,626,341                |
| Health                                     | 104,931,884            | 108,187,156            | 110,177,021            | (1,061,736)                | 109,115,285               |
| Human Services                             | 1,629,207,079          | 1,688,206,938          | 1,642,761,821          | (2,280,848)                | 1,640,480,973             |
| Mental Health, Retardation, & Hospitals    | 465,965,281            | 493,607,149            | 487,185,797            | (3,538,993)                | 483,646,804               |
| Office of the Child Advocate               | 420,874                | 456,409                | 598,096                | (26,211)                   | 571,885                   |
| Commission on Deaf & Hard of Hearing       | 262,320                | 300,389                | 370,329                | (13,873)                   | 356,456                   |
| RI Developmental Disabilities Council      | 598,694                | 468,398                | 461,393                | -                          | 461,393                   |
| Governor's Commission on Disabilities      | 706,319                | 792,814                | 1,023,327              | (27,623)                   | 995,704                   |
| Commission for Human Rights                | 1,107,462              | 1,181,941              | 1,398,694              | (47,441)                   | 1,351,253                 |
| Office of the Mental Health Advocate       | 339,922                | 377,376                | 409,492                | (19,591)                   | 389,901                   |
| <b>Subtotal - Human Services</b>           | <b>\$2,508,690,083</b> | <b>\$2,623,567,330</b> | <b>\$2,577,042,443</b> | <b>(\$9,931,525)</b>       | <b>\$2,567,110,918</b>    |
| <b>Education</b>                           |                        |                        |                        |                            |                           |
| Elementary and Secondary                   | 980,989,560            | 999,448,268            | 1,076,679,481          | (1,385,128)                | 1,075,294,353             |
| Higher Education - Board of Governors*     | 629,473,283            | 687,460,193            | 739,807,969            | (6,358,670)                | 733,449,299               |
| RI Council on the Arts                     | 2,507,198              | 2,626,162              | 4,581,161              | (34,012)                   | 4,547,149                 |
| RI Atomic Energy Commission                | 976,442                | 1,095,361              | 1,382,908              | (38,090)                   | 1,344,818                 |
| Higher Education Assistance Authority      | 23,287,850             | 22,973,871             | 29,658,012             | (30,271)                   | 29,627,741                |
| Historical Preservation and Heritage Comm. | 1,965,282              | 2,284,108              | 2,459,763              | (53,985)                   | 2,405,778                 |
| Public Telecommunications Authority        | 3,170,445              | 3,387,939              | 2,217,167              | (57,778)                   | 2,159,389                 |
| <b>Subtotal - Education</b>                | <b>\$1,642,370,060</b> | <b>\$1,719,275,902</b> | <b>\$1,856,786,461</b> | <b>(\$7,957,934)</b>       | <b>\$1,848,828,527</b>    |

\*FY 2006 expenditure data for Higher Education reflects updated audited expenditures.

## Expenditures from All Funds

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>Public Safety</b>                       |                        |                        |                        |                            |                           |
| Attorney General                           | \$19,628,994           | \$22,225,477           | \$23,137,164           | (\$944,130)                | \$22,193,034              |
| Corrections                                | 151,740,062            | 161,859,193            | 178,411,571            | (6,468,934)                | 171,942,637               |
| Judicial                                   | 81,582,201             | 89,067,158             | 95,442,437             | (3,184,528)                | 92,257,909                |
| Military Staff                             | 20,268,716             | 27,276,522             | 37,353,846             | (73,212)                   | 37,280,634                |
| E-911 Emergency Telephone System           | 4,918,862              | 6,259,096              | 6,868,718              | (205,774)                  | 6,662,944                 |
| Fire Safety Code Board of Appeal & Review  | 237,485                | 295,118                | 289,299                | (12,725)                   | 276,574                   |
| State Fire Marshal                         | 2,221,107              | 2,373,445              | 3,029,049              | (121,691)                  | 2,907,358                 |
| Commission on Judicial Tenure & Discipline | 129,108                | 111,504                | 114,772                | (4,243)                    | 110,529                   |
| Rhode Island Justice Commission            | 5,295,881              | 5,393,728              | 4,901,694              | (6,167)                    | 4,895,527                 |
| Municipal Police Training Academy          | 389,141                | 336,230                | 470,710                | (18,229)                   | 452,481                   |
| State Police                               | 46,460,587             | 49,748,144             | 54,342,790             | (1,236,082)                | 53,106,708                |
| Office Of Public Defender                  | 7,155,719              | 8,397,923              | 9,462,246              | (440,603)                  | 9,021,643                 |
| <b>Subtotal - Public Safety</b>            | <b>\$340,027,863</b>   | <b>\$373,343,538</b>   | <b>\$413,824,296</b>   | <b>(\$12,716,318)</b>      | <b>\$401,107,978</b>      |
| <b>Natural Resources</b>                   |                        |                        |                        |                            |                           |
| Environmental Management                   | 64,728,697             | 68,197,576             | 91,950,719             | (1,333,054)                | 90,617,665                |
| Coastal Resources Management Council       | 3,830,827              | 4,483,026              | 6,907,059              | (85,352)                   | 6,821,707                 |
| Water Resources Board                      | 2,635,204              | 1,973,950              | 2,417,902              | (47,889)                   | 2,370,013                 |
| <b>Subtotal - Natural Resources</b>        | <b>\$71,194,728</b>    | <b>\$74,654,552</b>    | <b>\$101,275,680</b>   | <b>(\$1,466,295)</b>       | <b>\$99,809,385</b>       |
| <b>Transportation</b>                      |                        |                        |                        |                            |                           |
| Transportation                             | 369,519,134            | 395,001,637            | 338,839,441            | -                          | 338,839,441               |
| <b>Subtotal - Transportation</b>           | <b>\$369,519,134</b>   | <b>\$395,001,637</b>   | <b>\$338,839,441</b>   | <b>\$0</b>                 | <b>\$338,839,441</b>      |
| <b>Total</b>                               | <b>\$6,000,331,705</b> | <b>\$6,492,084,577</b> | <b>\$6,664,949,402</b> | <b>\$0</b>                 | <b>\$6,664,949,402</b>    |

## Expenditures from General Revenues

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>General Government</b>                  |                        |                        |                        |                            |                           |
| Administration                             | \$416,002,357          | \$429,484,402          | \$442,478,140          | \$36,474,745               | \$478,952,885             |
| Business Regulation                        | 9,278,429              | 9,768,222              | 10,934,704             | (503,357)                  | 10,431,347                |
| Labor and Training                         | 7,096,275              | 7,324,546              | 6,841,850              | (158,761)                  | 6,683,089                 |
| Legislature                                | 26,933,113             | 29,355,254             | 32,219,892             | (1,428,017)                | 30,791,875                |
| Lieutenant Governor                        | 848,006                | 900,055                | 963,012                | (47,835)                   | 915,177                   |
| Secretary of State                         | 5,288,648              | 5,218,294              | 5,940,917              | (202,185)                  | 5,738,732                 |
| General Treasurer                          | 3,166,378              | 2,748,742              | 2,953,000              | (120,872)                  | 2,832,128                 |
| Boards for Design Professionals            | 379,272                | 381,196                | 390,153                | (16,252)                   | 373,901                   |
| Board of Elections                         | 1,502,197              | 1,439,758              | 2,516,239              | (72,162)                   | 2,444,077                 |
| Rhode Island Ethics Commission             | 969,234                | 1,156,118              | 1,297,421              | (56,377)                   | 1,241,044                 |
| Governor's Office                          | 4,362,965              | 4,763,179              | 4,952,015              | (233,765)                  | 4,718,250                 |
| Public Utilities Commission                | 628,341                | 656,682                | 743,985                | (18,513)                   | 725,472                   |
| Rhode Island Commission on Women           | 83,741                 | 89,442                 | 99,715                 | (4,340)                    | 95,375                    |
| Revenue                                    | -                      | -                      | 37,458,039             | (1,540,237)                | 35,917,802                |
| <b>Subtotal - General Government</b>       | <b>\$476,538,956</b>   | <b>\$493,285,890</b>   | <b>\$549,789,082</b>   | <b>\$32,072,072</b>        | <b>\$581,861,154</b>      |
| <b>Human Services</b>                      |                        |                        |                        |                            |                           |
| Office of Health & Human Services          | -                      | -                      | 313,160                | (13,707)                   | 299,453                   |
| Children, Youth, and Families              | 155,364,630            | 167,965,205            | 173,191,438            | (2,758,533)                | 170,432,905               |
| Elderly Affairs                            | 25,660,265             | 22,123,916             | 20,095,705             | (142,969)                  | 19,952,736                |
| Health                                     | 29,859,395             | 37,324,508             | 33,303,209             | (1,061,736)                | 32,241,473                |
| Human Services                             | 694,484,822            | 720,809,657            | 725,054,386            | (2,280,848)                | 722,773,538               |
| Mental Health, Retardation, & Hospitals    | 230,338,122            | 249,867,984            | 238,455,569            | (3,538,993)                | 234,916,576               |
| Office of the Child Advocate               | 339,721                | 445,876                | 558,096                | (26,211)                   | 531,885                   |
| Commission on Deaf & Hard of Hearing       | 262,320                | 300,389                | 355,329                | (13,873)                   | 341,456                   |
| RI Developmental Disabilities Council      | -                      | -                      | -                      | -                          | -                         |
| Governor's Commission on Disabilities      | 535,199                | 539,666                | 602,202                | (27,623)                   | 574,579                   |
| Commission for Human Rights                | 997,419                | 984,270                | 1,075,216              | (47,441)                   | 1,027,775                 |
| Office of the Mental Health Advocate       | 339,922                | 377,376                | 409,492                | (19,591)                   | 389,901                   |
| <b>Subtotal - Human Services</b>           | <b>\$1,138,181,815</b> | <b>\$1,200,738,847</b> | <b>\$1,193,413,802</b> | <b>(\$9,931,525)</b>       | <b>\$1,183,482,277</b>    |
| <b>Education</b>                           |                        |                        |                        |                            |                           |
| Elementary and Secondary                   | 793,955,132            | 835,821,640            | 889,376,406            | (1,385,128)                | 887,991,278               |
| Higher Education - Board of Governors      | 173,432,404            | 180,371,798            | 196,731,350            | (6,358,670)                | 190,372,680               |
| RI Council on the Arts                     | 1,791,045              | 1,987,618              | 2,841,466              | (34,012)                   | 2,807,454                 |
| RI Atomic Energy Commission                | 716,418                | 799,461                | 836,702                | (38,090)                   | 798,612                   |
| Higher Education Assistance Authority      | 9,956,900              | 7,729,028              | 6,747,402              | (30,271)                   | 6,717,131                 |
| Historical Preservation and Heritage Comm. | 1,221,109              | 1,395,340              | 1,705,676              | (53,985)                   | 1,651,691                 |
| Public Telecommunications Authority        | 1,039,184              | 1,257,553              | 1,388,669              | (57,778)                   | 1,330,891                 |
| <b>Subtotal - Education</b>                | <b>\$982,112,192</b>   | <b>\$1,029,362,438</b> | <b>\$1,099,627,671</b> | <b>(\$7,957,934)</b>       | <b>\$1,091,669,737</b>    |

\*FY 2006 expenditure data for Higher Education reflects updated audited expenditures.

## Expenditures from General Revenues

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>Public Safety</b>                         |                        |                        |                        |                            |                           |
| Attorney General                             | \$17,141,816           | \$19,895,946           | \$20,843,701           | (\$944,130)                | \$19,899,571              |
| Corrections                                  | 146,860,786            | 151,117,192            | 162,442,311            | (6,468,934)                | 155,973,377               |
| Judicial                                     | 71,715,433             | 76,968,253             | 83,973,989             | (3,184,528)                | 80,789,461                |
| Military Staff                               | 2,336,253              | 2,982,040              | 3,164,919              | (73,212)                   | 3,091,707                 |
| E-911 Emergency Telephone System             | 3,881,544              | 4,341,440              | 4,485,669              | (205,774)                  | 4,279,895                 |
| Fire Safety Code Board of Appeal & Review    | 237,485                | 295,118                | 289,299                | (12,725)                   | 276,574                   |
| State Fire Marshal                           | 2,099,879              | 2,243,867              | 2,838,049              | (121,691)                  | 2,716,358                 |
| Commission on Judicial Tenure and Discipline | 129,108                | 111,504                | 114,772                | (4,243)                    | 110,529                   |
| Rhode Island Justice Commission              | 253,856                | 253,278                | 163,972                | (6,167)                    | 157,805                   |
| Municipal Police Training Academy            | 342,853                | 331,008                | 425,710                | (18,229)                   | 407,481                   |
| State Police                                 | 42,443,124             | 45,221,615             | 49,047,151             | (1,236,082)                | 47,811,069                |
| Office Of Public Defender                    | 6,871,288              | 8,270,299              | 9,326,545              | (440,603)                  | 8,885,942                 |
| <b>Subtotal - Public Safety</b>              | <b>\$294,313,425</b>   | <b>\$312,031,560</b>   | <b>\$337,116,087</b>   | <b>(\$12,716,318)</b>      | <b>\$324,399,769</b>      |
| <b>Natural Resources</b>                     |                        |                        |                        |                            |                           |
| Environmental Management                     | 33,277,951             | 38,089,629             | 37,530,496             | (1,333,054)                | 36,197,442                |
| Coastal Resources Management Council         | 1,416,887              | 1,681,767              | 2,112,667              | (85,352)                   | 2,027,315                 |
| Water Resources Board                        | 1,087,511              | 1,358,690              | 1,937,302              | (47,889)                   | 1,889,413                 |
| <b>Subtotal - Natural Resources</b>          | <b>\$35,782,349</b>    | <b>\$41,130,086</b>    | <b>\$41,580,465</b>    | <b>(\$1,466,295)</b>       | <b>\$40,114,170</b>       |
| <b>Transportation</b>                        |                        |                        |                        |                            |                           |
| Transportation                               | -                      | -                      | -                      | -                          | -                         |
| <b>Subtotal - Transportation</b>             | <b>-</b>               | <b>-</b>               | <b>-</b>               | <b>-</b>                   | <b>-</b>                  |
| <b>Total</b>                                 | <b>\$2,926,928,737</b> | <b>\$3,076,548,821</b> | <b>\$3,221,527,107</b> | <b>\$0</b>                 | <b>\$3,221,527,107</b>    |

## Expenditures from Federal Funds

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>General Government</b>                  |                        |                        |                        |                            |                           |
| Administration                             | \$32,942,033           | \$30,372,627           | \$39,166,078           | -                          | \$39,166,078              |
| Business Regulation                        | -                      | -                      | -                      | -                          | -                         |
| Labor and Training                         | 31,826,292             | 33,831,488             | 28,609,685             | -                          | 28,609,685                |
| Legislature                                | -                      | -                      | -                      | -                          | -                         |
| Lieutenant Governor                        | -                      | -                      | -                      | -                          | -                         |
| Secretary of State                         | 2,913,387              | 6,196,306              | 2,016,890              | -                          | 2,016,890                 |
| General Treasurer                          | 1,713,752              | 594,151                | 1,022,289              | -                          | 1,022,289                 |
| Boards for Design Professionals            | -                      | -                      | -                      | -                          | -                         |
| Board of Elections                         | 1,066,871              | 953,176                | 818,900                | -                          | 818,900                   |
| Rhode Island Ethics Commission             | -                      | -                      | -                      | -                          | -                         |
| Governor's Office                          | -                      | -                      | -                      | -                          | -                         |
| Public Utilities Commission                | 56,367                 | 76,230                 | 88,567                 | -                          | 88,567                    |
| Rhode Island Commission on Women           | -                      | -                      | -                      | -                          | -                         |
| Revenue                                    | -                      | -                      | 1,583,898              | -                          | 1,583,898                 |
| <b>Subtotal - General Government</b>       | <b>\$70,518,702</b>    | <b>\$72,023,978</b>    | <b>\$73,306,307</b>    | <b>\$0</b>                 | <b>\$73,306,307</b>       |
| <b>Human Services</b>                      |                        |                        |                        |                            |                           |
| Office of Health & Human Services          | -                      | -                      | 245,357                | -                          | 245,357                   |
| Children, Youth, and Families              | 106,338,985            | 114,995,316            | 116,464,511            | -                          | 116,464,511               |
| Elderly Affairs                            | 11,769,152             | 15,196,097             | 12,623,605             | -                          | 12,623,605                |
| Health                                     | 64,504,296             | 59,868,982             | 66,163,334             | -                          | 66,163,334                |
| Human Services                             | 931,182,907            | 964,188,259            | 909,098,887            | -                          | 909,098,887               |
| Mental Health, Retardation, & Hospitals    | 232,779,398            | 240,348,945            | 244,652,728            | -                          | 244,652,728               |
| Office of the Child Advocate               | 81,153                 | 10,533                 | 40,000                 | -                          | 40,000                    |
| Commission on Deaf & Hard of Hearing       | -                      | -                      | 15,000                 | -                          | 15,000                    |
| RI Developmental Disabilities Council      | 598,694                | 468,398                | 461,393                | -                          | 461,393                   |
| Governor's Commission on Disabilities      | 39,209                 | 71,908                 | 195,681                | -                          | 195,681                   |
| Commission for Human Rights                | 110,043                | 197,671                | 323,478                | -                          | 323,478                   |
| Office of the Mental Health Advocate       | -                      | -                      | -                      | -                          | -                         |
| <b>Subtotal - Human Services</b>           | <b>\$1,347,403,837</b> | <b>\$1,395,346,109</b> | <b>\$1,350,283,974</b> | <b>\$0</b>                 | <b>\$1,350,283,974</b>    |
| <b>Education</b>                           |                        |                        |                        |                            |                           |
| Elementary and Secondary                   | 183,084,922            | 160,082,336            | 182,724,069            | -                          | 182,724,069               |
| Higher Education - Board of Governors      | 2,527,352              | 1,347,949              | 3,146,976              | -                          | 3,146,976                 |
| RI Council on the Arts                     | 677,768                | 584,039                | 731,500                | -                          | 731,500                   |
| RI Atomic Energy Commission                | 64,899                 | 136,215                | 375,000                | -                          | 375,000                   |
| Higher Education Assistance Authority      | 7,360,604              | 9,185,706              | 12,852,312             | -                          | 12,852,312                |
| Historical Preservation and Heritage Comm. | 569,714                | 581,658                | 487,267                | -                          | 487,267                   |
| Public Telecommunications Authority        | 360,905                | -                      | -                      | -                          | -                         |
| <b>Subtotal - Education</b>                | <b>\$194,646,164</b>   | <b>\$171,917,903</b>   | <b>\$200,317,124</b>   | <b>\$0</b>                 | <b>\$200,317,124</b>      |

## Expenditures from Federal Funds

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>Public Safety</b>                       |                        |                        |                        |                            |                           |
| Attorney General                           | \$1,585,915            | \$1,390,957            | \$1,055,397            | \$0                        | \$1,055,397               |
| Corrections                                | 2,889,866              | 9,064,112              | 8,338,120              | -                          | 8,338,120                 |
| Judicial                                   | 2,604,779              | 3,026,154              | 2,195,821              | -                          | 2,195,821                 |
| Military Staff                             | 17,651,183             | 24,001,319             | 32,649,782             | -                          | 32,649,782                |
| E-911 Emergency Telephone System           | 66,625                 | 171,162                | 70,936                 | -                          | 70,936                    |
| Fire Safety Code Board of Appeal & Review  | -                      | -                      | -                      | -                          | -                         |
| State Fire Marshal                         | 121,228                | 129,578                | 191,000                | -                          | 191,000                   |
| Commission on Judicial Tenure & Discipline | -                      | -                      | -                      | -                          | -                         |
| Rhode Island Justice Commission            | 5,017,915              | 5,140,112              | 4,707,722              | -                          | 4,707,722                 |
| Municipal Police Training Academy          | 46,288                 | 5,222                  | 45,000                 | -                          | 45,000                    |
| State Police                               | 1,143,803              | 1,330,658              | 1,743,907              | -                          | 1,743,907                 |
| Office Of Public Defender                  | 284,431                | 127,624                | 135,701                | -                          | 135,701                   |
| <b>Subtotal - Public Safety</b>            | <b>\$31,412,033</b>    | <b>\$44,386,898</b>    | <b>\$51,133,386</b>    | <b>\$0</b>                 | <b>\$51,133,386</b>       |
| <b>Natural Resources</b>                   |                        |                        |                        |                            |                           |
| Environmental Management                   | 16,417,852             | 18,683,991             | 33,786,435             | -                          | 33,786,435                |
| Coastal Resources Management Council       | 2,279,028              | 2,086,789              | 1,599,392              | -                          | 1,599,392                 |
| Water Resources Board                      | 606,874                | 203,685                | -                      | -                          | -                         |
| <b>Subtotal - Natural Resources</b>        | <b>\$19,303,754</b>    | <b>\$20,974,465</b>    | <b>\$35,385,827</b>    | <b>\$0</b>                 | <b>\$35,385,827</b>       |
| <b>Transportation</b>                      |                        |                        |                        |                            |                           |
| Transportation                             | 227,723,125            | 250,816,104            | 237,746,529            | -                          | 237,746,529               |
| <b>Subtotal - Transportation</b>           | <b>\$227,723,125</b>   | <b>\$250,816,104</b>   | <b>\$237,746,529</b>   | <b>-</b>                   | <b>\$237,746,529</b>      |
| <b>Total</b>                               | <b>\$1,891,007,615</b> | <b>\$1,955,465,457</b> | <b>\$1,948,173,147</b> | <b>\$0</b>                 | <b>\$1,948,173,147</b>    |

## Expenditures From Restricted Receipts

|  | FY 2005<br>Actual   | FY 2006<br>Unaudited | FY 2007<br>Enacted  | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|---------------------|----------------------|---------------------|----------------------------|---------------------------|
| <b>General Government</b>                      |                     |                      |                     |                            |                           |
| Administration                                 | \$8,285,544         | \$2,065,634          | \$5,579,789         | -                          | \$5,579,789               |
| Business Regulation                            | 476,398             | 668,908              | 804,408             | -                          | 804,408                   |
| Labor and Training                             | 22,322,945          | 15,355,905           | 22,889,473          | -                          | 22,889,473                |
| Legislature                                    | 1,098,591           | 1,351,504            | 1,451,733           | -                          | 1,451,733                 |
| Lieutenant Governor                            | -                   | -                    | -                   | -                          | -                         |
| Secretary of State                             | 391,429             | 458,741              | 486,355             | -                          | 486,355                   |
| General Treasurer                              | 25,494,082          | 28,150,155           | 24,816,835          | -                          | 24,816,835                |
| Boards for Design Professionals                | -                   | -                    | -                   | -                          | -                         |
| Board of Elections                             | -                   | -                    | -                   | -                          | -                         |
| Rhode Island Ethics Commission                 | -                   | -                    | -                   | -                          | -                         |
| Governor's Office                              | -                   | 117,777              | -                   | -                          | -                         |
| Public Utilities Commission                    | 4,133,122           | 4,446,304            | 6,080,429           | -                          | 6,080,429                 |
| Rhode Island Commission on Women               | -                   | -                    | -                   | -                          | -                         |
| Revenue  | -                   | -                    | 829,451             | -                          | 829,451                   |
| <b>Subtotal - General Government</b>           | <b>\$62,202,111</b> | <b>\$52,614,928</b>  | <b>\$62,938,473</b> | <b>\$0</b>                 | <b>\$62,938,473</b>       |
| <b>Human Services</b>                          |                     |                      |                     |                            |                           |
| Office of Health & Human Services              | -                   | -                    | 211,603             | -                          | 211,603                   |
| Children, Youth, and Families                  | 1,409,503           | 2,033,284            | 1,661,094           | -                          | 1,661,094                 |
| Elderly Affairs                                | -                   | 2,362,357            | 1,250,000           | -                          | 1,250,000                 |
| Health   | 10,530,235          | 10,972,385           | 10,680,518          | -                          | 10,680,518                |
| Human Services                                 | 3,539,350           | 3,159,071            | 8,608,548           | -                          | 8,608,548                 |
| Mental Health, Retardation, & Hospitals        | 50,000              | 6,776                | 90,000              | -                          | 90,000                    |
| Office of the Child Advocate                   | -                   | -                    | -                   | -                          | -                         |
| Commission on Deaf & Hard of Hearing           | -                   | -                    | -                   | -                          | -                         |
| RI Developmental Disabilities Council          | -                   | -                    | -                   | -                          | -                         |
| Governor's Commission on Disabilities          | 22,634              | 67,055               | 25,444              | -                          | 25,444                    |
| Commission for Human Rights                    | -                   | -                    | -                   | -                          | -                         |
| Office of the Mental Health Advocate           | -                   | -                    | -                   | -                          | -                         |
| <b>Subtotal - Human Services</b>               | <b>\$15,551,722</b> | <b>\$18,600,928</b>  | <b>\$22,527,207</b> | <b>\$0</b>                 | <b>\$22,527,207</b>       |
| <b>Education</b>                               |                     |                      |                     |                            |                           |
| Elementary and Secondary                       | 2,873,249           | 3,335,832            | 4,527,067           | -                          | 4,527,067                 |
| Higher Education - Board of Governors*         | 532,955             | 763,276              | 1,179,479           | -                          | 1,179,479                 |
| RI Council on the Arts                         | 38,385              | -                    | 1,008,195           | -                          | 1,008,195                 |
| RI Atomic Energy Commission                    | -                   | -                    | -                   | -                          | -                         |
| Higher Education Assistance Authority          | -                   | -                    | -                   | -                          | -                         |
| Historical Preservation and Heritage Commissic | 174,459             | 307,110              | 266,820             | -                          | 266,820                   |
| Public Telecommunications Authority            | -                   | -                    | -                   | -                          | -                         |
| <b>Subtotal - Education</b>                    | <b>\$3,619,048</b>  | <b>\$4,406,218</b>   | <b>\$6,981,561</b>  | <b>\$0</b>                 | <b>\$6,981,561</b>        |

\*FY 2006 expenditure data for Higher Education reflects updated audited expenditures.

## Expenditures From Restricted Receipts

|  | FY 2005<br>Actual    | FY 2006<br>Unaudited | FY 2007<br>Enacted   | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|----------------------|----------------------|----------------------|----------------------------|---------------------------|
| <b>Public Safety</b>                       |                      |                      |                      |                            |                           |
| Attorney General                           | \$698,341            | \$719,263            | \$1,073,066          | \$0                        | \$1,073,066               |
| Corrections                                | 217,362              | 2,423                | -                    | -                          | -                         |
| Judicial                                   | 6,730,331            | 7,631,617            | 8,327,627            | -                          | 8,327,627                 |
| Military Staff                             | 156,049              | 264,966              | 430,385              | -                          | 430,385                   |
| E-911 Emergency Telephone System           | 970,693              | 1,746,494            | 2,312,113            | -                          | 2,312,113                 |
| Fire Safety Code Board of Appeal & Review  | -                    | -                    | -                    | -                          | -                         |
| State Fire Marshal                         | -                    | -                    | -                    | -                          | -                         |
| Commission on Judicial Tenure & Discipline | -                    | -                    | -                    | -                          | -                         |
| Rhode Island Justice Commission            | 24,110               | 338                  | 30,000               | -                          | 30,000                    |
| Municipal Police Training Academy          | -                    | -                    | -                    | -                          | -                         |
| State Police                               | 248,488              | 164,848              | 235,411              | -                          | 235,411                   |
| Office Of Public Defender                  | -                    | -                    | -                    | -                          | -                         |
| <b>Subtotal - Public Safety</b>            | <b>\$9,045,374</b>   | <b>\$10,529,949</b>  | <b>\$12,408,602</b>  | <b>\$0</b>                 | <b>\$12,408,602</b>       |
| <b>Natural Resources</b>                   |                      |                      |                      |                            |                           |
| Environmental Management                   | 9,171,245            | 9,817,750            | 17,552,240           | -                          | 17,552,240                |
| Coastal Resources Management Council       | 134,912              | 669,970              | 3,195,000            | -                          | 3,195,000                 |
| Water Resources Board                      | 848,273              | 327,254              | 400,000              | -                          | 400,000                   |
| <b>Subtotal - Natural Resources</b>        | <b>\$10,154,430</b>  | <b>\$10,814,974</b>  | <b>\$21,147,240</b>  | <b>\$0</b>                 | <b>\$21,147,240</b>       |
| <b>Transportation</b>                      |                      |                      |                      |                            |                           |
| Transportation                             | 636,146              | 451,005              | 3,066,699            | -                          | 3,066,699                 |
| <b>Subtotal - Transportation</b>           | <b>\$636,146</b>     | <b>\$451,005</b>     | <b>\$3,066,699</b>   | <b>\$0</b>                 | <b>\$3,066,699</b>        |
| <b>Total</b>                               | <b>\$101,208,831</b> | <b>\$97,418,002</b>  | <b>\$129,069,782</b> | <b>\$0</b>                 | <b>\$129,069,782</b>      |

## Expenditures From Other Funds

|  | FY 2005<br>Actual    | FY 2006<br>Unaudited | FY 2007<br>Enacted   | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|----------------------|----------------------|----------------------|----------------------------|---------------------------|
| <b>General Government</b>                  |                      |                      |                      |                            |                           |
| Administration                             | \$66,558,242         | \$301,284,888        | \$77,613,451         | -                          | \$77,613,451              |
| Business Regulation                        | -                    | -                    | -                    | -                          | -                         |
| Labor and Training                         | 386,737,877          | 381,131,905          | 397,478,832          | -                          | 397,478,832               |
| Legislature                                | -                    | -                    | -                    | -                          | -                         |
| Lieutenant Governor                        | -                    | -                    | -                    | -                          | -                         |
| Secretary of State                         | -                    | -                    | -                    | -                          | -                         |
| General Treasurer                          | 5,973,949            | 5,851,023            | 303,834              | -                          | 303,834                   |
| Boards for Design Professionals            | -                    | -                    | -                    | -                          | -                         |
| Board of Elections                         | -                    | -                    | -                    | -                          | -                         |
| Rhode Island Ethics Commission             | -                    | -                    | -                    | -                          | -                         |
| Governor's Office                          | -                    | 49,006               | 92,129               | -                          | 92,129                    |
| Public Utilities Commission                | -                    | -                    | -                    | -                          | -                         |
| Rhode Island Commission on Women           | -                    | -                    | -                    | -                          | -                         |
| Revenue                                    | -                    | -                    | 215,658,973          | -                          | 215,658,973               |
| <b>Subtotal - General Government</b>       | <b>\$459,270,068</b> | <b>\$688,316,822</b> | <b>\$691,147,219</b> | <b>\$0</b>                 | <b>\$691,147,219</b>      |
| <b>Human Services</b>                      |                      |                      |                      |                            |                           |
| Office of Health & Human Services          | -                    | -                    | -                    | -                          | -                         |
| Children, Youth, and Families              | 500                  | 555,435              | 1,800,000            | -                          | 1,800,000                 |
| Elderly Affairs                            | 4,607,213            | 4,757,150            | 4,800,000            | -                          | 4,800,000                 |
| Health                                     | 37,958               | 21,281               | 29,960               | -                          | 29,960                    |
| Human Services                             | -                    | 49,951               | -                    | -                          | -                         |
| Mental Health, Retardation, & Hospitals    | 2,797,761            | 3,383,444            | 3,987,500            | -                          | 3,987,500                 |
| Office of the Child Advocate               | -                    | -                    | -                    | -                          | -                         |
| Commission on Deaf & Hard of Hearing       | -                    | -                    | -                    | -                          | -                         |
| RI Developmental Disabilities Council      | -                    | -                    | -                    | -                          | -                         |
| Governor's Commission on Disabilities      | 109,277              | 114,185              | 200,000              | -                          | 200,000                   |
| Commission for Human Rights                | -                    | -                    | -                    | -                          | -                         |
| Office of the Mental Health Advocate       | -                    | -                    | -                    | -                          | -                         |
| <b>Subtotal - Human Services</b>           | <b>\$7,552,709</b>   | <b>\$8,881,446</b>   | <b>\$10,817,460</b>  | <b>\$0</b>                 | <b>\$10,817,460</b>       |
| <b>Education</b>                           |                      |                      |                      |                            |                           |
| Elementary and Secondary                   | 1,076,257            | 208,460              | 51,939               | -                          | 51,939                    |
| Higher Education - Board of Governors*     | 452,980,572          | 504,977,170          | 538,750,164          | -                          | 538,750,164               |
| RI Council on the Arts                     | -                    | 54,505               | -                    | -                          | -                         |
| RI Atomic Energy Commission                | 195,125              | 159,685              | 171,206              | -                          | 171,206                   |
| Higher Education Assistance Authority      | 5,970,346            | 6,059,137            | 10,058,298           | -                          | 10,058,298                |
| Historical Preservation and Heritage Comm. | -                    | -                    | -                    | -                          | -                         |
| Public Telecommunications Authority        | 1,770,356            | 2,130,386            | 828,498              | -                          | 828,498                   |
| <b>Subtotal - Education</b>                | <b>\$461,992,656</b> | <b>\$513,589,343</b> | <b>\$549,860,105</b> | <b>\$0</b>                 | <b>\$549,860,105</b>      |

\*FY 2006 expenditure data for Higher Education reflects undated audited expenditures.

## Expenditures From Other Funds

|  | FY 2005<br>Actual      | FY 2006<br>Unaudited   | FY 2007<br>Enacted     | FY 2007<br>Redistributions | FY 2007<br>Working Budget |
|--|------------------------|------------------------|------------------------|----------------------------|---------------------------|
| <b>Public Safety</b>                       |                        |                        |                        |                            |                           |
| Attorney General                           | \$202,922              | \$219,311              | \$165,000              | \$0                        | \$165,000                 |
| Corrections                                | 1,772,048              | 1,675,466              | 7,631,140              | -                          | 7,631,140                 |
| Judicial                                   | 531,658                | 1,441,134              | 945,000                | -                          | 945,000                   |
| Military Staff                             | 125,231                | 28,197                 | 1,108,760              | -                          | 1,108,760                 |
| E-911 Emergency Telephone System           | -                      | -                      | -                      | -                          | -                         |
| Fire Safety Code Board of Appeal & Review  | -                      | -                      | -                      | -                          | -                         |
| State Fire Marshal                         | -                      | -                      | -                      | -                          | -                         |
| Commission on Judicial Tenure & Discipline | -                      | -                      | -                      | -                          | -                         |
| Rhode Island Justice Commission            | -                      | -                      | -                      | -                          | -                         |
| Municipal Police Training Academy          | -                      | -                      | -                      | -                          | -                         |
| State Police                               | 2,625,172              | 3,031,023              | 3,316,321              | -                          | 3,316,321                 |
| Office Of Public Defender                  | -                      | -                      | -                      | -                          | -                         |
| <b>Subtotal - Public Safety</b>            | <b>\$5,257,031</b>     | <b>\$6,395,131</b>     | <b>\$13,166,221</b>    | <b>\$0</b>                 | <b>\$13,166,221</b>       |
| <b>Natural Resources</b>                   |                        |                        |                        |                            |                           |
| Environmental Management                   | 5,861,649              | 1,606,206              | 3,081,548              | -                          | 3,081,548                 |
| Coastal Resources Management Council       | -                      | 44,500                 | -                      | -                          | -                         |
| Water Resources Board                      | 92,546                 | 84,321                 | 80,600                 | -                          | 80,600                    |
| <b>Subtotal - Natural Resources</b>        | <b>\$5,954,195</b>     | <b>\$1,735,027</b>     | <b>\$3,162,148</b>     | <b>\$0</b>                 | <b>\$3,162,148</b>        |
| <b>Transportation</b>                      |                        |                        |                        |                            |                           |
| Transportation                             | 141,159,863            | 143,734,528            | 98,026,213             | -                          | 98,026,213                |
| <b>Subtotal - Transportation</b>           | <b>\$141,159,863</b>   | <b>\$143,734,528</b>   | <b>\$98,026,213</b>    | <b>\$0</b>                 | <b>\$98,026,213</b>       |
| <b>Total</b>                               | <b>\$1,081,186,522</b> | <b>\$1,362,652,297</b> | <b>\$1,366,179,366</b> | <b>\$0</b>                 | <b>\$1,366,179,366</b>    |

## Free Surplus

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

As shown in the free surplus table, the opening surplus for the FY 2007 enacted budget is projected to be \$23.7 million. The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Based upon the first quarterly report, the State Budget Office projects a deficit of \$104.8 million. The State is required by the Constitution to maintain a balanced budget, and has consistently done so in the past. The resolution of the projected \$104.8 million imbalance will be the result of expenditure reductions, revenue increases, or a combination of both. To the extent that such changes require the General Assembly's approval, the Governor is required to submit a supplemental budget for the current year and the proposed budget for FY 2008 on the third Thursday in January.

|                              | <u>FY 2006</u><br><u>Unaudited</u><br><u>(In Millions)</u> | <u>FY 2007</u><br><u>Enacted<sup>(1)</sup></u><br><u>(In Millions)</u> | <u>FY 2007</u><br><u>Projection<sup>(2)</sup></u><br><u>(In Millions)</u> | <u>Difference<sup>(3)</sup></u><br><u>(In Millions)</u> |
|------------------------------|--|--|---|---|
| Opening Surplus              |  |  |   |   |
| Free Surplus                 | \$38.7   | \$23.7   | \$37.7  | \$14.0  |
| Reappropriated Surplus       | <u>13.5</u>  | <u>0.0</u>   | <u>17.4</u>   | <u>17.4</u>   |
| Subtotal                     | 52.2   | 23.7   | 55.1  | 31.4  |
| Revenues and Transfers       |  |  |   |   |
| Revenues                     | 2,769.5  | 2,824.8  | 2,828.1   | 3.3   |
| Other Sources                | <u>373.6</u>   | <u>439.0</u>   | <u>361.5</u>  | <u>(77.5)</u>   |
| Subtotal                     | 3,143.1  | 3,263.8  | 3,189.6   | (74.2)  |
| Cash Stabilization Fund      | (63.6)   | (65.8)   | (64.5)  | 1.2   |
| Total Available              | \$3,131.7  | \$3,221.8  | \$3,180.2   | \$(41.6)  |
| Projected Expenditures       | \$3,076.5  | \$3,221.5  | \$3,285.1   | \$63.5  |
| <b>Free Surplus</b>          | <b>\$37.7</b>  | <b>\$0.3</b>   | <b>\$(104.8)</b>  | <b>\$(105.1)</b>  |
| <b>Reappropriations</b>      | <b>17.4</b>  | <b>0</b>   | <b>0</b>  | <b>0</b>  |
| <b>Total Ending Balances</b> | <b>55.1</b>  | <b>0.3</b>   | <b>\$(104.8)</b>  | <b>\$(105.1)</b>  |

\*May not add due to rounding.

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

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

<sup>(3)</sup> The difference between the enacted and projected results for FY 2007, as reflected in the second and third columns above.

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

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

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

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2005 through 2007. FY 2005 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. FY 2006 data is derived from the preliminary unaudited closing report for the fiscal year ended June 30, 2006 prepared by the State Controller. The FY 2007 enacted data reflects the budget which was enacted by the General Assembly in June 2006. The FY 2007 revised estimates reflect the budget enacted by the General Assembly, as modified by the changes to the revenue estimates resulting from the November 2006 Revenue Estimating Conference and projected changes to the expenditures as revealed in the first quarterly report issued by the State Budget Office on November 15, 2006. The free surplus for FY 2006 is \$37.7 million, and there were \$17.4 million of reappropriations carried forward. The budget enacted by the General Assembly in June 2006 for FY 2007 was predicated upon available resources of \$3,222 billion net of reserve fund contributions, and expenditures of \$3,222 billion resulting in an estimated closing surplus of \$0.3 million. The current projections revealed in the first quarterly report reflects resources of \$3.180 billion, expenditures of \$3.285 billion and an estimated deficit of \$104.8 million. Included within the revenue and expenditure change are \$17.4 million of reappropriations from FY 2006. This is reflected in the FY 2007 revised column on the following table.

## General Revenue Budget Surplus Statement

|  | FY2005<br>Audited       | FY2006<br>Unaudited     | FY2007<br>Enacted       | FY2007<br>Revised       |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Surplus</b>   |                         |                         |                         |                         |
| Opening Surplus  | \$ 24,451,367           | \$ 38,698,361           | \$ 23,721,453           | \$ 37,760,784           |
| Reappropriated Surplus                                   | 10,145,888              | 13,489,214              |                         | 17,381,365              |
| Subtotal   | <b>34,597,255</b>       | <b>52,187,575</b>       | <b>23,721,453</b>       | <b>55,142,149</b>       |
| <b>General Taxes</b>                                     | 2,376,770,047           | 2,482,081,864           | 2,528,389,657           | 2,528,389,657           |
| Revenue estimators' revision                             | -                       |                         |                         | 4,510,343               |
| Changes to adopted revenue estimates                     |                         |                         |                         |                         |
| Subtotal   | <b>2,376,770,047</b>    | <b>2,482,081,864</b>    | <b>2,528,389,657</b>    | <b>2,532,900,000</b>    |
| <b>Departmental Revenues</b>                             | 267,952,890             | 287,430,365             | 296,432,332             | 296,432,332             |
| Revenue estimators' revision                             | -                       |                         |                         | (1,232,332)             |
| Changes to adopted revenue estimates                     |                         |                         |                         |                         |
| Subtotal   | <b>267,952,890</b>      | <b>287,430,365</b>      | <b>296,432,332</b>      | <b>295,200,000</b>      |
| <b>Other Sources</b>                                     |                         |                         |                         |                         |
| Gas Tax Transfers  | 9,022,662               | 4,322,195               | 4,927,335               | 4,927,335               |
| Revenue estimators' revision                             | -                       |                         |                         | (242,335)               |
| Changes to adopted revenue estimates                     |                         |                         |                         |                         |
| Other Miscellaneous                                      | 28,197,313              | 31,163,069              | 60,779,212              | 60,779,212              |
| Rev Estimators' revision-Miscellaneous                   | -                       |                         |                         | (35,243,212)            |
| Changes to adopted revenue estimates                     |                         |                         |                         |                         |
| Lottery  | 307,549,646             | 323,899,490             | 362,500,000             | 362,500,000             |
| Revenue Estimators' revision-Lottery                     | -                       |                         |                         | (41,500,000)            |
| Unclaimed Property                                       | 15,617,732              | 14,243,183              | 10,800,000              | 10,800,000              |
| Revenue Estimators' revision-Unclaimed                   | -                       |                         |                         | (500,000)               |
| Subtotal   | <b>360,387,353</b>      | <b>373,627,937</b>      | <b>439,006,547</b>      | <b>361,521,000</b>      |
| <b>Total Revenues</b>                                    | <b>\$ 3,005,110,290</b> | <b>\$ 3,143,140,166</b> | <b>\$ 3,263,828,536</b> | <b>\$ 3,189,621,000</b> |
| <b>Budget Stabilization</b>                              | <b>(60,591,233)</b>     | <b>(63,636,771)</b>     | <b>(65,751,000)</b>     | <b>(64,547,636)</b>     |
| <b>Total Available</b>                                   | <b>\$ 2,979,116,312</b> | <b>\$ 3,131,690,970</b> | <b>\$ 3,221,798,989</b> | <b>\$ 3,180,215,514</b> |
| Actual/Enacted Expenditures                              | \$ 2,926,928,737        | \$ 3,076,548,821        | \$ 3,221,527,107        | \$ 3,221,527,107        |
| Reappropriations   | -                       | -                       | -                       | 17,381,365              |
| Quartely Report Projection                               | -                       | -                       | -                       | 46,145,376              |
| <b>Total Expenditures</b>                                | <b>\$ 2,926,928,737</b> | <b>\$ 3,076,548,821</b> | <b>\$ 3,221,527,107</b> | <b>\$ 3,285,053,848</b> |
| <b>Free Surplus</b>                                      | <b>\$ 38,698,361</b>    | <b>\$ 37,760,784</b>    | <b>\$ 271,882</b>       | <b>\$ (104,838,334)</b> |
| <b>Budget Balancing Plan for FY2007*</b>                 |                         |                         |                         | <b>\$ 104,838,334</b>   |
| <b>Reappropriations</b>                                  | 13,489,214              | 17,381,365              | -                       | -                       |
| <b>Total Ending Balances</b>                             | <b>\$ 52,187,575</b>    | <b>\$ 55,142,149</b>    | <b>\$ 271,882</b>       | <b>\$ (0)</b>           |
| <b>Budget Reserve and Cash<br/>Stabilization Account</b> | <b>\$ 90,866,850</b>    | <b>\$ 95,455,156</b>    | <b>\$ 98,626,500</b>    | <b>\$ 96,821,454</b>    |

\* The State is required by the State Constitution to maintain a balanced budget. In the event of a budgetary imbalance, the available free surplus will be reduced and/or additional resources (i.e. taxes, fines, fees, licenses, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances – Budget Procedures" will be put into effect. Although no specific plan is in place to date, a combination of these measures will be utilized by the State in order to maintain a balanced budget.

## CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

Prior to Fiscal Year 2002, the State's audited annual financial report had typically been completed approximately six to nine months after the close of a fiscal year. The report for the year ending June 30, 2002 was completed sixteen months after the close of that year. There were two primary reasons for this delay. First, the 2002 report was the first report required to comply with GASB Statement 34. Completing the inventory of fixed assets which was required in order to provide a complete report of the State entity in accordance with GASB 34 took longer than anticipated. Second, at the beginning of the year ending June 30, 2002, the State introduced a new accounting system. There had been a number of training and system problems with the new software package which have required adjustments to correct initial recording of expenditures or interfund transfers. The 2003 report was completed sixteen months after the close of the fiscal year due to the late start on the FY 2003 audit and some continuing issues with the reconciliation and fixed assets reporting. The report for the fiscal year ending June 30, 2004 was issued in July 2005. The report for fiscal year ending June 30, 2005 was issued in February 2006.

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

### STATE INDEBTEDNESS

#### Authorization and Debt Limits

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

#### Public Finance Management Board

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

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

#### Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels,

the General Assembly appropriated general revenues of \$4.0 million in FY 1999, and \$865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net \$5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated \$4.415 million.

### Tax Anticipation Notes

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

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

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

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

### 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 November 15, 2006, authorized but unissued direct debt totaled \$408,579,627 and there was no authorized but unissued guaranteed debt.

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

|  | <u>Debt<br/>Outstanding<br/>June 30, 2002<sup>(1)</sup></u> | <u>Debt<br/>Outstanding<br/>June 30, 2003<sup>(1)</sup></u> | <u>Debt<br/>Outstanding<br/>June 30, 2004<sup>(1)</sup></u> | <u>Debt<br/>Outstanding<br/>June 30, 2005<sup>(1)</sup></u> | <u>Debt<br/>Outstanding<br/>June 30, 2006<sup>(1,5)</sup></u> |
|--|---|---|---|---|---|
| <b>Direct Debt:</b>  |   |   |   |   |   |
| Various Purpose Bonds Outstanding                              | \$ 654,879  | \$ 694,933  | \$ 737,772  | \$ 778,250  | \$ 822,881  |
| Variable Rate General Obligations                              | <u>28,165</u>   | <u>27,965</u>   | <u>24,865</u>   | <u>22,665</u>   | <u>19,665</u>   |
| <b>Subtotal</b>  | <b>\$ 683,044</b>   | <b>\$ 722,898</b>   | <b>\$ 762,637</b>   | <b>\$ 800,915</b>   | <b>\$ 842,546</b>   |
| <b>Guaranteed Debt:</b>  |   |   |   |   |   |
| Narragansett Bay District Commission Bonds <sup>(2)</sup>      | <u>15,019</u>   | <u>13,119</u>   | <u>11,266</u>   | -   | -   |
| <b>Subtotal</b>  | <b>15,019</b>   | <b>13,119</b>   | <b>11,266</b>   | -   | -   |
| <b>Other Debt Subject to Annual Appropriation:</b>             |   |   |   |   |   |
| RI Refunding Bond Authority Lease Rental Bonds                 | 132,440   | 100,705   | 84,730  | 74,615  | 60,320  |
| RI Refunding Bond Authority – Direct                           | 650   | -   | -   | -   | -   |
| RI Refunding Bond Auth. – Gurmtl Narr. Bay                     | 15  | -   | -   | -   | -   |
| Convention Center Authority Outstanding <sup>(3)</sup>         | 319,435   | 310,005   | 302,320   | 202,855   | 287,185   |
| Economic Development Corporation – Transportation              | -   | -   | 47,405  | 42,255  | 79,156  |
| Certificates of Participation – Master Equipment Lease         | 7,995   | 8,865   | 5,180   | 9,505   | 13,580  |
| Certificates of Participation – Intake Center                  | 19,500  | 17,440  | 15,285  | 13,025  | 10,655  |
| Certificates of Participation – Attorney General               | 2,795   | 2,795   | 2,795   | 2,795   | 2,795   |
| Certificates of Participation – DLT Howard Complex             | 21,335  | 20,365  | 19,345  | 18,275  | 17,150  |
| Certificates of Participation – Pastore Steam Plant            | 23,440  | 23,440  | 23,440  | 23,440  | 23,440  |
| Certificates of Participation – Shepards Building              | 28,820  | 27,655  | 26,410  | 25,080  | 23,655  |
| Certificates of Participation – Kent County Courthouse         | -   | -   | -   | 58,910  | 56,685  |
| Certificates of Participation – Traffic Tribunal Court Complex | -   | -   | -   | 21,565  | 20,765  |
| Certificates of Participation – Training School                | -   | -   | -   | 51,985  | 50,205  |
| Rhode Island Housing/Traveler's Aid/NOP Program                | 12,550  | 12,550  | 12,550  | 13,060  | 18,756  |
| Economic Development – Dow Chemical Corporation                | 25,000  | 25,000  | 25,000  | 24,542  | -   |
| Economic Development – URI Power Plant                         | 15,304  | 14,729  | 14,134  | 13,514  | 12,869  |
| Economic Development – McCoy Stadium                           | <u>8,780</u>  | <u>7,945</u>  | <u>7,080</u>  | <u>6,180</u>  | <u>5,245</u>  |
| <b>Subtotal</b>  | <b>618,059</b>  | <b>574,849</b>  | <b>585,674</b>  | <b>601,601</b>  | <b>680,975</b>  |
| <b>Performance Based Agreements<sup>(4)</sup></b>              |   |   |   |   |   |
| Economic Development – Fidelity Building I                     | 23,615  | 23,071  | 22,487  | 21,847  | 21,154  |
| Economic Development – Fidelity Building II                    | 10,000  | 10,000  | 10,000  | 10,000  | 10,000  |
| Economic Development – Fleet Bank Lease                        | <u>10,500</u>   | <u>10,350</u>   | <u>10,180</u>   | <u>10,015</u>   | <u>9,830</u>  |
| <b>Subtotal</b>  | <b>44,115</b>   | <b>43,421</b>   | <b>42,677</b>   | <b>41,862</b>   | <b>40,984</b>   |
| Gross Debt   | 1,360,237   | 1,354,288   | 1,402,253   | 1,444,379   | 1,564,506   |
| Less: Adjustments for Agency Payments:                         | (72,593)  | (70,000)  | (67,441)  | (54,976)  | (29,662)  |
| <b>Net Tax Supported Debt</b>                                  | <b>\$1,287,643</b>  | <b>\$1,280,933</b>  | <b>\$1,334,812</b>  | <b>\$1,389,403</b>  | <b>\$1,534,844</b>  |
| <b>Debt Ratios</b>   |   |   |   |   |   |
| <b>Personal Income</b>   | <b>\$32,767,677</b>   | <b>\$33,747,431</b>   | <b>\$35,830,000</b>   | <b>\$37,985,750</b>   | <b>\$40,074,966</b>   |
| <b>Debt as a Percent of Personal Income</b>                    | <b>3.93%</b>  | <b>3.80%</b>  | <b>3.73%</b>  | <b>3.66%</b>  | <b>3.83%</b>  |

- (1) Reflects defeasance with tobacco securitization proceeds of \$242,978,728 of general obligation bonds and \$4,650,000 of certificates of participation in June 2002.
- (2) Reflects the defeasance in June 2005 of the user fee funded general obligation bonds by the Narragansett Bay District Commission which were guaranteed by the State.
- (3) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel.
- (4) Excludes contract for Providence Place Mall described under "State Revenues – Sales Tax".
- (5) Excludes the impact of the State's issuance of \$74,835,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Refunding Series A; its \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B issued on September 28, 2006, and its \$98,105,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C issued on October 31, 2006.

*Direct debt* is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2006, the State had \$842.5 million of general obligation tax supported bonds outstanding. On September 28, 2006, however, the State issued \$95,515,000 of general obligation tax supported bonds, consisting of its \$74,835,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Refunding Series A, which refunded \$72,930,000 of prior general obligation tax supported bonds of the State, and its \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B. On October 31, 2006, the State issued \$98,105,000 of General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C. On November 7, 2006 the voters approved \$225,290,000 of general obligation bond authorization. Authorized but unissued direct debt totaled \$408.5 million as of November 15, 2006.

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

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

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

\* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of November 15, 2006. Excludes guaranteed and contingent debt.

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

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of November 15, 2006 which has been approved by referenda of the electors.

**Authorized but Unissued Direct Debt**

| <u>Purpose</u>   | <u>Statutory Authorization</u>  | <u>Authorized but Unissued Debt as of November 15, 2006*</u> |
|--|---|--|
| <b>Direct Debt:</b>                                      |   |  |
| Clean Water Act Environmental Trust Fund                 | Ch. 289-P.L. of 1986  | 1,764,627  |
| Mental Health, Retardation and Hospitals                 | Ch. 434-P.L. of 1990  | 30,000   |
| RI Water Pollution Revolving Loan Fund<br>And Trust Fund | Ch. 238-P.L. of 1988 as<br>amended by Ch. 303-P.L. of<br>1989, Ch. 434-P.L. of 1990 | 5,600,000  |
| Elementary & Secondary Education                         | Ch. 70-P.L. of 1994   | 420,000  |
| Environmental Management                                 | Ch. 55-P.L. of 2000   | 255,000  |
| State Police HQ/Fire Training Academy                    | Ch. 65-P.L. of 2002   | 40,070,000   |
| Preservation, Recreation & Heritage<br>Transportation    | Ch. 65-P.L. of 2002   | 2,900,000  |
| Higher Education Residence Halls                         | Ch. 595-P.L. of 2004  | 3,600,000  |
| Emergency Water Interconnect                             | Ch. 595-P.L. of 2004  | 2,350,000  |
| Open Space Recreation, Bay &<br>Watershed Protection     | Ch. 595-P.L. of 2004  | 8,000,000  |
| Pell Library - Undersea Exploration Center               | Ch. 595-P.L. of 2004  | 50,650,000   |
| Historic Preservation and Heritage                       | Ch. 595-P.L. of 2004  | 6,800,000  |
| URI Biotechnology & Life Sciences Center                 | Ch. 595-P.L. of 2004  | 2,250,000  |
| Quonset Point/Davisville                                 | Ch. 595-P.L. of 2004  | 26,600,000   |
| Higher Education   | Ch. 595-P.L. of 2004  | 32,000,000   |
| Transportation   | Ch. 246-P.L. of 2006  | 72,790,000   |
| Roger Williams Park Zoo                                  | Ch. 246-P.L. of 2006  | 88,500,000   |
| Environmental Management                                 | Ch. 246-P.L. of 2006  | 11,000,000   |
| Affordable Housing                                       | Ch. 246-P.L. of 2006  | 3,000,000  |
| <b>Total Direct Debt</b>                                 |   | <b><u>\$408,579,627</u></b>                                  |

Source: State Budget Office

\*Reflects issuance of \$20,680,000 General Obligation Bonds, Capital Development Loan of 2006, Series B on September 28, 2006, and \$98,105,000 General Obligation Bonds, Consolidated Capital Development Loan of 2006, Series C on October 31, 2006.

*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 November 15, 2006, there was no outstanding or authorized but unissued guaranteed debt.

**Extinguishments of Debt Authorization**

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of \$25,421,386, which was previously reflected in the above table.

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

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

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

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

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

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

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

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued \$9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed \$318,000 of taxable certificates at that time. In June 2001, the State financed an additional \$3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional \$3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional \$6,950,000. In June 2006, the State financed an additional \$6.0 million. As of June 30, 2006, \$13,580,000 of certificates were outstanding.

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

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

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of \$53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling \$42,815,000 was sold. As of June 30, 2006, \$79,156,000 was outstanding.

**Performance-based obligations of the Rhode Island Economic Development Corporation.** In May 1996 the Economic Development Corporation issued \$25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional \$10 million of bonds with similar provisions were issued. As of June 30, 2006, \$31.154 million of Fidelity bonds were outstanding. Job rent credits resulted in a State obligation of \$1.5 million in 2006, and are expected to reach \$2.5 million annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2006, \$9.830 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately \$300,000 per year.

#### **State Agencies and Authorities**

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

**Rhode Island Turnpike and Bridge Authority.** Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). On July 31, 2003 the Authority issued \$35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is \$29,819,469 at June 30, 2006.

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

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

District Commission was merged into the Narragansett Bay Commission. The Corporation has benefited from the proceeds of state general obligation bonds, some of which were funded by user fees of the Corporation. All such state general obligation bonds payable from user fees have been satisfied.

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

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

As of June 30, 2006, the Authority had outstanding mortgage agreements and other commitments for \$22,701,951 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by the Authority and all amounts realized upon foreclosure or other proceeds of defaulted mortgages are payable into the Industrial Recreational Building Mortgage Insurance Fund. All expenses of the Authority and all losses on insured mortgages are chargeable to this Fund. As of June 30, 2006, the Fund had a balance of \$1,556,339. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

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

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

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued

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

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

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

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

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

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

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

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

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of \$19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2006 totals \$16,897,676.

The outstanding indebtedness is collateralized by all revenues of the Corporation, certain restricted funds created pursuant to the Bonds issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the Bonds. In addition, outstanding indebtedness is insured under a financial guaranty insurance policy.

During 2006, in conjunction with the purchase of several properties held for development, the Corporation issued various note payable agreements, bearing interest at 5% per annum, in the original amount of \$4,700,000. The aggregate balance outstanding on these notes at June 30, 2006 and 2005 was \$3,550,000 and \$2,000,000 respectively. Future minimum debt payments are \$1,675,000 in fiscal year 2007 and \$625,000 in fiscal years 2008, 2009 and 2010.

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

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

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the

Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2006. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$9,545,000 as of June 30, 2006.

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

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

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2006, the Agency has issued bonds in the aggregate amount of \$634,095,000 to fund \$84,342,855 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2006 is \$398,380,000 in the clean water state revolving fund (CWSRF wastewater projects), \$55,485,000 for two conduit financings and \$81,985,000 in the drinking water state revolving fund. Also, in years 1997 through 2006, the Agency made a total of \$38,180,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of \$27,578,037 in direct loans out of the Drinking Water State Revolving Fund and \$58,095,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund.

**Rhode Island Public Transit Authority.** The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 238 buses and 115 vans carrying approximately 24.5 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 and then to \$1.50 in February 2005. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2006, audited results of operations reveal that

State-operating assistance to the Authority totaled \$34,840,725, operating revenues totaled \$30,116,994, and other revenues totaled \$17,828,649.

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

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

As of June 30, 2006, the Corporation had revenue bonds outstanding of \$895,634,250 including conduit debt of \$45,545,000 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

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

In May 1996, the Corporation issued \$25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2006, the outstanding balance was \$21,154,250.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield, Rhode Island. In connection therewith, the Corporation issued \$10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2006, the outstanding balance was \$10,000,000.

In November 1997, the Corporation issued \$11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2006, the outstanding balance was \$9,830,000.

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

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

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

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

Pursuant to its Articles of Incorporation, the powers of RIAC are vested in its Board of Directors consisting of seven members; one member is appointed by the Mayor of the City of Warwick and the remaining six members are appointed by the Governor of the State. Each of the six directors appointed by the Governor serves a staggered four year term. The director appointed by the Mayor of the City of Warwick serves at the pleasure of the Mayor.

Pursuant to the State Lease Agreement, RIAC leased T.F. Green Airport and the five general aviation airports (collectively, "Airports") from the State for a term ending June 30, 2036, at a rental of \$1.00 per year. RIAC has also acquired all of the personal property and other assets of the State located at or relating to the Airports. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's ("RIDOT") responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation Bonds ("G.O. Bonds") related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

RIAC operates on a fiscal year basis beginning on July 1 and continuing through the following June 30<sup>th</sup> of each year. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes.

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

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

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 commercial carrier. The T.F. Green Airport is primarily an origin – destination airport. In recent years, approximately 95% of the passengers at the Airport either began or ended their journeys at the T.F. Green Airport. There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

- North Central Airport – Located approximately fifteen miles from the T.F. Green Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Smithfield.
- Quonset Airport – This airport is located in North Kingstown, approximately ten miles south of the T.F. Green Airport. The Rhode Island Air National Guard moved its operations from the T.F. Green Airport to Quonset Airport in 1986. The Rhode Island Army National Guard also maintains a presence at the Quonset Airport. Quonset Airport also has additional industrial facilities which are leased to several companies by the Quonset Development Corporation (“QDC”), a subsidiary of the EDC. Quonset Airport is classified by the FAA as a reliever airport.
- Westerly Airport – Located in Westerly, Rhode Island, the southwest portion of the State, Westerly Airport is approximately thirty-five miles from the T.F. Green Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.
- Newport Airport – This airport is located in Middletown, Rhode Island, approximately seventeen miles from the T.F. Green Airport. Newport Airport is classified as a general aviation airport.
- Block Island Airport – Situated on Block Island, Rhode Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the T.F. Green Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.

As of June 2006, and based upon classifications defined by the U.S. Department of Transportation, the T.F. Green Airport has scheduled passenger service provided by fifteen major/national and three commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

## Airport Use & Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2006:

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

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

## Historical Enplanement Data

T.F. Green Airport ranked as the 58<sup>th</sup> busiest airport in the country for the federal fiscal year 2004 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 58<sup>th</sup> busiest in federal fiscal year 2003, 56<sup>th</sup> in federal fiscal year 2002, 57<sup>th</sup> in federal fiscal year 2001 and 58<sup>th</sup> in federal fiscal year 2000.

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

## Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for State G.O. Bond debt service accruing after July 1, 1993 on G.O. Bonds issued by the State for airport purposes, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the T.F. Green Airport or general aviation airports' operating expenses. In the event there are not sufficient moneys to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2020. The balance outstanding at June 30, 2006 and 2005 was \$14.635 million and \$16.721 million, respectively.

In 1994, RIAC issued \$30 million General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2006 and 2005 was \$6.07 million for both years.

In 1998, RIAC issued \$8.035 million Series A and \$53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2006 and 2005 was \$55.715 million and \$56.910 million, respectively.

In 2000, RIAC issued \$8.38 million Series A and \$42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5%. The balance outstanding as of June 30, 2006 and 2005 was \$7.375 million and \$8.38 million, respectively.

In 2003, RIAC issued \$31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of \$31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures

annually from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2006 and June 30, 2005 was \$29.12 million and \$31.725 million, respectively.

In 2004, RIAC issued \$52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of \$31.915 million and \$20.190 million in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARBs, respectively. The refunding issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2006 and June 30, 2005 was \$51.82 million and \$52.665 million respectively.

In 2005, RIAC issued \$43.545 million Series A and \$27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued \$44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of \$42.165 million in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of \$3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series A, B and C Bonds as of June 30, 2006 and June 30, 2005 was \$115.255 million in the aggregate for both years.

#### Long Term Debt Administration – Intermodal Facility

In 2006, RIAC issued \$48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was \$48.765 million as of June 30, 2006.

The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture. The Trust Estate consists of: (i) Facility Revenues (which include customer facility charges (CFCs), (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture, (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture, and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the Intermodal Facility Project, RIAC and the EDC have secured additional funds under the US Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) provisions for the payment of eligible project costs of the Intermodal Facility up to \$42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund to be funded from CFCs on the Date of Operational Opening in an amount equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2006, no amounts have been drawn on the TIFIA loan.

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

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

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2006, the Corporation had an outstanding principal balance of conduit debt of \$98,576,859. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled \$22,701,951 as of June 30, 2006.

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

***Rhode Island Student Loan Authority.*** The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2006, the Authority held \$458,576,697 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on September 30, 2006, \$24,140,754 in Rhode Island Family Education Loans and \$215,345,440 in College Bound Loans. As of September 30, 2006, the Authority had \$793,940,000 of tax-exempt and taxable bonds outstanding.

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

***Rhode Island Water Resources Board Corporate.*** Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by

or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge. On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On August 7, 1997 the Board issued refunding bonds in the amount of \$9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of June 30, 2006 was \$3,865,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000. On November 15, 2002, the Board issued \$11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds will be used to fund Phase III of public drinking water protection. The amount of the series 2002 refunding bonds outstanding as of June 30, 2006 was \$9,065,000.

***Rhode Island Health and Educational Building Corporation.*** The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2006, the Corporation had \$1,861,192,452 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

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

The TSFC issued \$685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A (“TSAC Bonds”) in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the “state’s tobacco receipts”, as defined in the Act, after December 2003. As of June 30, 2006, the TSFC had \$669,375,000 of bonds outstanding.

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

## EMPLOYEE RELATIONS

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

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

As of March 8, 2006 the State had 16,262 paid employees. This equates to approximately 15,075 full-time equivalent positions. Of this amount, 12,496 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 4,729 employees, or 37.84 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (1,000 employees); the Rhode Island Brotherhood of Correctional Officers (1,160 employees); the American Association of University Professors (707 employees) to name a few. In addition, there are 3,766 non-union employees. Contracts with fifteen of the collective bargaining units expired on or prior to June 30, 2004. In July 2005, the largest bargaining unit, Council 94, settled a four-year contract which provides for four consecutive cost-of-living adjustments and initiation of co-sharing of employee medical benefit coverage. There are currently three collective bargaining agreements which have not settled. They are the Rhode Island Brotherhood of Correctional Officers, the Rhode Island Alliance of Social Service Employees, and the Physicians. The contracts provide that the terms of the previous contract prevail until a new contract is negotiated.

## STATE RETIREMENT SYSTEMS

### Employees' Retirement System

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

The ERSRI provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies ("LEA") and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers.

Additionally, the State created the Judicial Retirement Benefits Trust ("JRBT") to fund retirement benefits for judges hired after December 31, 1989 and the State Police Retirement Benefits Plan ("SPRBP") to fund retirement benefits for state police officers originally hired after July 1, 1987. These two plans are significantly smaller than the ERSRI for state employees and teachers. As of June 30, 2005, there are 44 active members of the JRBT and two retirees and beneficiaries. As of June 30, 2005, there are 181 active members of the SPRBP and two retirees and beneficiaries. Pensions for state police officers and judges hired prior to the dates reflected above for each of the plans are funded on a pay as you go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

### **Financial Objectives and Funding Policy**

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal ("EAN") and amortization of the Unfunded Actuarial Accrued Liability ("UAAL") over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 24 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

### **Progress Toward Realization of Financing Objectives**

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio decreased from 59.6 percent to 56.3 percent during the period July 1, 2004 to June 30, 2005, while for teachers the ratio decreased from 59.3 percent to 55.4 percent over the same period. During the same period, the funded ratio increased from 73.3% to 87.0% for the judges and from 75.8% to 79.0% for the state police. These are based on the Entry Age Normal funding method effective June 30, 1999.

### **Pension Reform**

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

**Change in Age Eligibility**

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

**Change in Benefit Accrual Rates**

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

**Change in Cost of Living Adjustment**

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

**Social Security Option**

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

## **GASB 25 and Funding Progress**

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

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

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

Development of Contribution Rates  
June 30, 2005

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

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

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

<sup>1</sup>Restated numbers based on Entry Age Normal funding method

<sup>2</sup>Frozen Actuarial Liability for plan years 1998 and prior

<sup>3</sup>Unfunded Frozen Actuarial Liability for plan year 1998

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

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

| ERS<br>Fiscal<br>Year<br>Ended<br><u>June 30</u> | <u>State<br/>Employees</u>         |                           | <u>Teachers<br/>(State)</u>        |                           | <u>Teachers (Local)</u>            |                           |
|--|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|
|  | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
| 2005   | \$66,087,984                       | 100%                      | \$48,834,755                       | 100%                      | \$73,006,173                       | 100%                      |
| 2004   | 55,699,588                         | 100%                      | 45,039,279                         | 100%                      | 70,666,221                         | 100%                      |
| 2003   | 45,323,258                         | 100%                      | 38,242,690                         | 100%                      | 55,504,739                         | 100%                      |
| 2002   | 31,801,645                         | 100%                      | 30,763,337                         | 100%                      | 44,391,050                         | 100%                      |
| 2001   | 44,540,998                         | 100%                      | 35,365,234                         | 100%                      | 48,153,386                         | 100%                      |
| 2000   | 44,353,675                         | 100%                      | 40,719,407                         | 100%                      | 57,667,528                         | 100%                      |
| 1999   | 48,526,064                         | 100%                      | 30,202,943                         | 100%                      | 42,373,952                         | 100%                      |
| 1998   | 51,310,092                         | 100%                      | 35,005,382                         | 100%                      | 52,040,574                         | 100%                      |
| 1997   | 45,403,827                         | 100%                      | 34,871,679                         | 100%                      | 48,945,845                         | 100%                      |

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

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

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

## **OTHER BENEFITS**

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

In anticipation of the issuance and implementation of GASB Statements 43 and 45, "Other Post Employment Benefits," in December 2003 the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits based upon standards proposed at that time. The unfunded liability as of June 30, 2002 was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimate rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 Session of the General Assembly.

## **LITIGATION**

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. Gen. Laws § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

## **FINANCIAL STATEMENTS**

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2005, 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 for the Fiscal Year Ended June 30, 2005**

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EXHIBIT A

State of Rhode Island and Providence Plantations  
Audited Financial Statements  
for the Fiscal Year Ended June 30, 2005

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AUDITOR GENERAL  
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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2005 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 3% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 38% of the assets and 2% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and

Exhibit A-1

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

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

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2005. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, depreciable intangible, and building improvement capital asset categories represent \$122 million or 8% of total recorded net governmental activities capital assets of \$1,457 million at June 30, 2005.

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

Management has not presented encumbrances outstanding at June 30, 2005 as a reserved component of fund balance within the State's major governmental funds and other governmental funds or disclosed such amounts in the notes to the basic financial statements as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the reserved and unreserved components of fund balance of the governmental funds is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, on the IST Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue, and except for the omission of encumbrances outstanding at June 30, 2005 as a component of reserved fund balance of the governmental funds, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the State as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finance Committee of the House of Representatives  
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In addition, in our opinion, except for the effects of such adjustments, if any, on the governmental activities included in the statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, depreciable intangible, and building improvement components of capital assets, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate discretely presented component units of the State as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the basic financial statements, the State adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* effective July 1, 2004.

As discussed in note 17 to the basic financial statements, beginning net assets of the governmental activities on the statement of net assets were decreased by \$11.4 million for the recording of additional long-term liabilities. Beginning net assets of the discretely presented component units on the statement of net assets were increased by \$11.6 million primarily to reflect a reduction in previously recorded long-term liabilities.

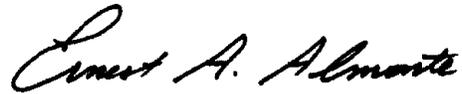
As provided by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the statement of net assets.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

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

The Management’s Discussion and Analysis, on pages A-5 through A-16, the Budgetary Comparison Schedules on pages A-56 through A-68, and the Schedules of Funding Progress on page A-69 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

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

of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE  
Auditor General

February 17, 2006

## Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2005. 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, 2005 by \$347.4 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$946.6) million was reported as unrestricted net assets, \$548.8 million was restricted net assets, and \$745.2 million was invested in capital assets, net of related debt.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by \$211.0 million in fiscal year 2005. Net assets of governmental activities changed by \$211.5 million, while net assets of the business-type activities changed by (\$0.5) million. The primary reason for the \$211.0 million increase was the \$122.0 million increase in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in invested in capital assets, net of related debt. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

#### Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$831.6 million, an increase of \$122.0 million in comparison with the previous fiscal year. The primary reason for this is the unspent proceeds in other governmental (capital projects) funds.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$38.7 million, an increase of \$14.2 million in comparison with the previous fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.
  - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$90.9 million, an increase of \$6.6 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$32.6 million, which was a decrease of \$3.8 million from the previous year. . The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.
- The GARVEE Fund ended its fiscal year with a fund balance of \$195.9 million of which \$9.3 million is reserved for debt. The fund balance decreased by \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were out of bond proceeds from prior year issuances.

## Management's Discussion and Analysis

- The Rhode Island State Lottery transferred \$307.6 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$26.5 million in comparison with the previous fiscal year.

### Overview of the Financial Statements

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

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

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

### Changes in Presentation

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

### Government-wide Financial Statements

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

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

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

## Management's Discussion and Analysis

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

### Fund Financial Statements

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

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

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

Governmental funds include the general fund and special revenue, capital projects 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*

## Management's Discussion and Analysis

*State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic 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.

In anticipation of the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal 2007, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers as of December 2003. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimated rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 session of the General Assembly.

- **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.

# Management's Discussion and Analysis

Major Features of the Basic Financial Statements

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

## Notes to the Financial Statements

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

## Required Supplementary Information

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

## Other Supplementary Information

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

## Government-Wide Financial Analysis

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$347.4 million at the end of fiscal year 2005, compared to \$136.4 million at the end of the prior fiscal year. The primary reason for the \$211.0 million increase was the \$122.0 million increase

## Management's Discussion and Analysis

in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in investment in capital assets net of related debt.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) recorded for fiscal years 2002 through 2005, less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

State of Rhode Island's Net Assets as of June 30, 2005  
(Expressed in Thousands)

|  | Governmental<br>Activities |                    | Business-Type<br>Activities |                   | Total<br>Primary<br>Government |                   |
|--|----------------------------|--------------------|-----------------------------|-------------------|--------------------------------|-------------------|
|  | 2005                       | 2004               | 2005                        | 2004              | 2005                           | 2004              |
| Current and other assets                           | \$ 1,464,055               | \$ 1,257,114       | \$ 257,003                  | \$ 276,030        | \$ 1,721,058                   | \$ 1,533,144      |
| Capital assets                                     | 1,456,908                  | 1,256,951          | 124,874                     | 199,644           | 1,581,782                      | 1,456,595         |
| Total assets                                       | <u>2,920,963</u>           | <u>2,514,065</u>   | <u>381,877</u>              | <u>475,674</u>    | <u>3,302,840</u>               | <u>2,989,739</u>  |
| Long-term liabilities outstanding                  | 1,992,541                  | 1,879,935          | 199,987                     | 286,424           | 2,192,528                      | 2,166,359         |
| Other liabilities                                  | 732,911                    | 650,086            | 30,010                      | 36,915            | 762,921                        | 687,001           |
| Total liabilities                                  | <u>2,725,452</u>           | <u>2,530,021</u>   | <u>229,997</u>              | <u>323,339</u>    | <u>2,955,449</u>               | <u>2,853,360</u>  |
| Net assets:  |                            |                    |                             |                   |                                |                   |
| Invested in capital assets,<br>net of related debt | 816,578                    | 675,696            | (71,413)                    | (84,910)          | 745,165                        | 590,786           |
| Restricted   | 315,370                    | 301,346            | 233,476                     | 251,596           | 548,846                        | 552,942           |
| Unrestricted                                       | (936,437)                  | (992,998)          | (10,183)                    | (14,351)          | (946,620)                      | (1,007,349)       |
| Total net assets                                   | <u>\$ 195,511</u>          | <u>\$ (15,956)</u> | <u>\$ 151,880</u>           | <u>\$ 152,335</u> | <u>\$ 347,391</u>              | <u>\$ 136,379</u> |

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

### Changes in Net Assets

The State's net assets increased by \$211.0 million during the current fiscal year. Total revenues of \$6,927.0 million were more than expenses of \$6,727.9 million. Approximately 38.8% of the State's total revenue came from taxes, while 27.4% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 31.6% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 37.3% and intergovernmental, 16.8%. In fiscal year 2005, the State ceased reporting grants as separate expenditure line in the financial statements. These grant expenditures were primarily related to education. In fiscal year 2005, governmental activity expenses exceeded program revenues, which resulted in the use of \$3,119.9 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2005 exceeded expenses by \$263.0 million. In fiscal year 2004, payments from component units were included in miscellaneous general revenue.

## Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

|   | Governmental<br>Activities |                    | Business-Type<br>Activities |                   | Total<br>Primary Government |                   |
|---|----------------------------|--------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|   | 2005                       | 2004               | 2005                        | 2004              | 2005                        | 2004              |
| <b>Revenues:</b>  |                            |                    |                             |                   |                             |                   |
| <b>Program revenues:</b>                                  |                            |                    |                             |                   |                             |                   |
| Charges for services                                      | \$ 351,784                 | \$ 342,366         | \$ 1,835,511                | \$ 1,684,585      | \$ 2,187,295                | \$ 2,026,951      |
| Operating grants and contributions                        | 1,794,965                  | 1,703,526          | 2,633                       | 29,492            | 1,797,598                   | 1,733,018         |
| Capital grants and contributions                          | 97,681                     | 156,372            |                             |                   | 97,681                      | 156,372           |
| <b>General revenues:</b>                                  |                            |                    |                             |                   |                             |                   |
| Taxes   | 2,687,684                  | 2,477,453          |                             |                   | 2,687,684                   | 2,477,453         |
| Interest  | 14,443                     | 9,812              | 10,875                      | 12,884            | 25,318                      | 22,696            |
| Miscellaneous   | 104,411                    | 136,122            | 7,633                       | 5,568             | 112,044                     | 141,690           |
| Gain on sale of capital assets                            | 853                        |                    |                             |                   | 853                         |                   |
| Payments from component units                             | 18,503                     |                    |                             |                   | 18,503                      |                   |
| <b>Total revenues</b>                                     | <b>5,070,324</b>           | <b>4,825,651</b>   | <b>1,856,652</b>            | <b>1,732,529</b>  | <b>6,926,976</b>            | <b>6,558,180</b>  |
| <b>Program expenses:</b>                                  |                            |                    |                             |                   |                             |                   |
| General government  | 503,659                    | 474,640            |                             |                   | 503,659                     | 474,640           |
| Human services  | 2,512,628                  | 2,420,998          |                             |                   | 2,512,628                   | 2,420,998         |
| Education   | 264,385                    | 75,744             |                             |                   | 264,385                     | 75,744            |
| Public safety   | 336,069                    | 321,015            |                             |                   | 336,069                     | 321,015           |
| Natural resources   | 65,913                     | 61,839             |                             |                   | 65,913                      | 61,839            |
| Transportation  | 226,529                    | 173,935            |                             |                   | 226,529                     | 173,935           |
| Intergovernmental   | 1,127,496                  | 1,047,537          |                             |                   | 1,127,496                   | 1,047,537         |
| Grants  |                            | 299,291            |                             |                   |                             | 299,291           |
| Interest  | 116,171                    | 104,760            |                             |                   | 116,171                     | 104,760           |
| Lottery   |                            |                    | 1,330,298                   | 1,200,059         | 1,330,298                   | 1,200,059         |
| Convention Center   |                            |                    | 35,746                      | 62,622            | 35,746                      | 62,622            |
| Employment insurance                                      |                            |                    | 209,018                     | 238,220           | 209,018                     | 238,220           |
|   | <u>5,152,850</u>           | <u>4,979,759</u>   | <u>1,575,062</u>            | <u>1,500,901</u>  | <u>6,727,912</u>            | <u>6,480,660</u>  |
| Increase in net assets before transfers and special items | (82,526)                   | (154,108)          | 281,590                     | 231,628           | 199,064                     | 77,520            |
| Special items   |                            |                    | 11,948                      |                   | 11,948                      |                   |
| Transfers   | 293,993                    | 266,886            | (293,993)                   | (266,886)         |                             |                   |
| <b>Change in net assets</b>                               | <b>211,467</b>             | <b>112,778</b>     | <b>(455)</b>                | <b>(35,258)</b>   | <b>211,012</b>              | <b>77,520</b>     |
| Net assets - Beginning                                    | (15,956)                   | (117,341)          | 152,335                     | 187,593           | 136,379                     | 70,252            |
| Cumulative effect of prior period adjustments             |                            | (11,393)           |                             |                   |                             | (11,393)          |
| Net assets - Beginning, as restated                       | (15,956)                   | (128,734)          | 152,335                     | 187,593           | 136,379                     | 58,859            |
| <b>Net assets - Ending</b>                                | <b>\$ 195,511</b>          | <b>\$ (15,956)</b> | <b>\$ 151,880</b>           | <b>\$ 152,335</b> | <b>\$ 347,391</b>           | <b>\$ 136,379</b> |

### 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 \$831.6 million, an increase of \$122.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$90.9 million for a "rainy day" account, (2) \$55.2 million for continuing appropriations, (3) \$91.1 million principally for liquidating debt, (4) \$132.0 million for employment insurance programs

## Management's Discussion and Analysis

and (5) \$1.4 million for other restricted purposes. Approximately 50.8% (\$422.3 million) of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

**General Fund.** The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$38.7 million, while total fund balance was \$184.8 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 0.8% of total General Fund expenditures, while total fund balance represent 3.8% of the same amount. The General Fund's unreserved fund balance increased from \$24.5 million to \$38.7 million, an increase of \$14.2 million during the current fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.

**Intermodal Surface Transportation Fund.** The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$32.6 million, while the total fund balance was \$33.9 million. Total fund balance of the ISTEA fund decreased by \$3.8 million during the current fiscal year. The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of \$195.9 million, a decrease of \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were made out of bond proceeds from prior year issuances.

### General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenues must be imposed. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$79.0 million, 1.6%, between the original budget and the final budget. General revenue appropriations increased from the original budget by \$18.1 million, 0.6%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

## Management's Discussion and Analysis

| General revenues                            | Change           |         |
|---|------------------|---------|
| Taxes                                       | (In thousands)   | Percent |
| Personal Income                             | \$ 54,325        | 5.9%    |
| Business Corporations                       | 20,669           | 22.6%   |
| Insurance Companies                         | 10,700           | 26.1%   |
| Sales and Use                               | (9,500)          | -1.1%   |
| Cigarettes                                  | (7,100)          | -4.9%   |
| Inheritance and Gift                        | 6,700            | 26.8%   |
| Departmental Revenue                        | (8,789)          | -2.9%   |
| Other                                       |                  |         |
| Transfer from Lottery                       | (12,397)         | -3.8%   |
| Other General Revenue                       | 24,352           | 0.8%    |
| Total Increase in Estimated Revenue         | <u>\$ 78,960</u> | 2.7%    |
|   |                  |         |
| General revenue appropriations              |                  |         |
| Department                                  |                  |         |
| Administration                              | \$ 6,951         | 1.7%    |
| Children, Youth and Families                | 11,648           | 8.1%    |
| Human Services                              | 9,659            | 1.4%    |
| Mental Health, Retardation<br>and Hospitals | 6,025            | 2.7%    |
| Other                                       | (16,233)         | -0.6%   |
| Total Increase in Appropriations            | <u>\$ 18,050</u> | 0.6%    |

### 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, 2005, amounts to \$1,581.8 million, net of accumulated depreciation of \$493.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 8.6% in terms of net book value. The R.I. Convention Center Authority sold the land and building known as the Westin Hotel. The sale reduced net capital assets of the business-type activities by \$74.6 million.

Actual expenditures to purchase or construct capital assets were \$247.6 million for the year. Of this amount, \$168.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$55.6 million.

## Management's Discussion and Analysis

State of Rhode Island's Capital Assets as of June 30, 2005  
(Expressed in Thousands)

|  | Governmental Activities |              | Business-Type Activities |            | Total<br>Primary Government |              |
|--|-------------------------|--------------|--------------------------|------------|-----------------------------|--------------|
|  | 2005                    | 2004         | 2005                     | 2004       | 2005                        | 2004         |
| Capital assets not being depreciated       |                         |              |                          |            |                             |              |
| Land                                       | \$ 326,514              | \$ 322,369   | \$ 31,474                | \$ 38,032  | \$ 357,988                  | \$ 360,401   |
| Intangibles                                | 90,989                  | 85,564       |                          |            | 90,989                      | 85,564       |
| Construction in progress                   | 133,878                 | 82,810       | 306                      | 1,189      | 134,184                     | 83,999       |
| Total capital assets not being depreciated | 551,381                 | 490,743      | 31,780                   | 39,221     | 583,161                     | 529,964      |
| Capital assets being depreciated           |                         |              |                          |            |                             |              |
| Land improvements                          | 3,601                   | 3,601        |                          |            | 3,601                       | 3,601        |
| Buildings                                  | 430,678                 | 429,982      | 148,481                  | 229,813    | 579,159                     | 659,795      |
| Building improvements                      | 199,469                 | 198,632      |                          |            | 199,469                     | 198,632      |
| Equipment                                  | 170,620                 | 158,399      | 8,196                    | 24,722     | 178,816                     | 183,121      |
| Intangibles                                | 1,196                   | 898          |                          |            | 1,196                       | 898          |
| Infrastructure                             | 530,050                 | 361,850      |                          |            | 530,050                     | 361,850      |
|  | 1,335,614               | 1,153,362    | 156,677                  | 254,535    | 1,492,291                   | 1,407,897    |
| Less: Accumulated depreciation             | 430,087                 | 387,154      | 63,583                   | 94,113     | 493,670                     | 481,267      |
| Total capital assets being depreciated     | 905,527                 | 766,208      | 93,094                   | 160,422    | 998,621                     | 926,630      |
| Total capital assets (net)                 | \$ 1,456,908            | \$ 1,256,951 | \$ 124,874               | \$ 199,643 | \$ 1,581,782                | \$ 1,456,594 |

Significant capital projects under construction include relocation of a segment of interstate highway, a county courthouse, a traffic tribunal courthouse, youth correctional facilities and a State Police headquarters.

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

### Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$1,779.0 million of which \$801.0 million is general obligation debt, \$228.0 million is special obligation debt and \$750.0 million is debt of the blended component units. The State's total bonded debt decreased by \$15.0 million during the current fiscal year. This decrease is the net of a \$38.0 million increase in general obligation debt, a decrease of \$36.0 million in special obligation debt and a decrease of \$17.0 million in the blended component units. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$87.1 million of general obligation bonds and \$117.0 million of general obligation refunding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$398.1 million. Additional

## Management's Discussion and Analysis

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

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

### Economic Factors

The State's economy has continued to perform well, albeit at a slightly lower level than previously forecasted. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 4,900 jobs, or 1.0 percent, in FY 2005. In FY 2004, Rhode Island gained 5,300 jobs, an increase of 1.1 percent over FY 2003. On a calendar year basis, Rhode Island added 9,100 jobs in 2003 and 2004. The November 2005 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 494,200 in 2005, an increase of 5,800 jobs, or 1.2 percent, over 2004, and 501,100 in 2006, an increase of 6,900 jobs, or 1.4 percent, over projected 2005.

According to Moody's Economy.com's November 2005 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent labor market performance "has been steady and solid throughout most of 2005, but has stalled in recent months." Although "[T]he construction, education/health services, and leisure/hospitality sectors continue to advance at a healthy clip," financial and professional services employment has slowed, retail trade employment has stalled, and manufacturing employment has continued to decline. The education and health services sector accounts for 19.0 percent of Rhode Island total non-farm employment well above the U.S. average of 12.5 percent. This sector has been responsible for the creation of 55.0 percent of the State's "industry jobs." Rhode Island construction employment has been increasing since the fourth quarter of 2004 fueled by the State's exceptionally strong housing and commercial real estate markets as well as substantial government spending on road improvement and pollution abatement projects. The State's manufacturing sector, which had begun to stabilize after an employment decline of 1.5 percent in 2004, once again has turned down, decreasing by 4.0 percent over the past year. Finally, Rhode Island's "small business economy" has performed well, recording a 13.0 percent increase in the "number of small business births between 2003 and 2004 to a level that now surpasses the previous high in 2000." In addition, to the sharp increase in small business births, Rhode Island's "small business terminations have fallen 15.0 percent since peaking in 2002." This confluence of rising small business births and declining small business terminations "is a positive development, as it brings new talent and ideas into the marketplace."

Rhode Island personal income growth has also accelerated over the past year; however, the gap between Rhode Island and U.S. personal income growth has narrowed during this period. In FY 2003, Rhode Island personal income growth was 3.96 percent vs. 2.13 percent for U.S. personal income growth, a difference of 183 basis points. In FY 2004, Rhode Island personal income growth was 4.81 percent and U.S. personal income growth was 4.68 percent, essentially equal to that of Rhode Island. In FY 2005, Rhode Island personal income growth once again accelerated to an annual rate of 6.05 percent, however, for the country as a whole the personal income growth rate was 6.49 percent. The reversal of the spread between Rhode Island and U.S. personal income growth is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

## Management's Discussion and Analysis

Moody's Economy.com (11/2005) remains "optimistic about the near-term outlook" for Rhode Island's economy with payroll growth expected "to strengthen in 2006 as the national economy bounces back from the slowdown caused by Hurricane Katrina." Rhode Island "payroll employment growth is forecast to stabilize at around [a] 1.0 percent" annualized rate. One of the catalysts for near- to medium-term growth remains rising national defense spending. Moody's Economy.com (11/2005) notes that "the [S]tate is expected to gain about 861 jobs primarily at Naval Station Newport" from the final approval of the Base Realignment & Closure Commission's recommendations. These jobs tend to be ones that require high levels of human capital and are being added to complement the already existing job base not only at Naval Station Newport but also at nearby Raytheon. Aquidneck Island has become a national center for the development and testing of undersea surveillance, control and warfare systems.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State's long term economic performance. According to Moody's Economy.com (11/2005), "[T]he state is putting a lot of effort" into attracting and developing biotechnology companies, with "wide-ranging" initiatives from the creation of the Governor's Science and Technology Advisory Council to "making sure that enough biotech accommodating office/industrial space is available." The State's voters approved a \$50 million bond referendum for the construction of the Center for Biotechnology and Life Sciences at the University of Rhode Island. Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding from 300 to 400 jobs. The State's chief assets for the development of a viable biotechnology industry cluster are its "proximity to academic institutions, a good pool of job candidates", a compact geography, and its responsive government at the state and local levels. From Moody's Economy.com's (11/2005) perspective, these factors "make Rhode Island especially likely to succeed in this endeavor."

One of the "main threats" to the State's economic performance is the high tax burden imposed on Rhode Island businesses and households. Moody's Economy.com (11/2005) notes that "[S]ince 1990, Rhode Island's state and local tax burden has steadily increased...[and is] estimated at 11.4 percent of income,...well above the national average of 10.1 percent." High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island's heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts.

### Requests for Information

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

**State of Rhode Island and Providence Plantations**

**Statement of Net Assets**

**June 30, 2005**

**(Expressed in Thousands)**

|   | Primary Government         |                               |                   | Component<br>Units  |
|---|----------------------------|-------------------------------|-------------------|---------------------|
|   | Governmental<br>Activities | Business - Type<br>Activities | Totals            |                     |
| <b>Assets</b>                                   |                            |                               |                   |                     |
| Current assets:                                 |                            |                               |                   |                     |
| Cash and cash equivalents                       | \$ 480,750                 | \$ 10,728                     | \$ 491,478        | \$ 452,913          |
| Funds on deposit with fiscal agent              | 321,051                    | 165,887                       | 486,938           |                     |
| Investments                                     | 143                        |                               | 143               | 725,121             |
| Receivables (net)                               | 295,686                    | 61,050                        | 356,736           | 1,135,451           |
| Restricted assets:                              |                            |                               |                   |                     |
| Cash and cash equivalents                       |                            | 17,063                        | 17,063            | 209,078             |
| Investments                                     | 74,542                     |                               | 74,542            | 132,004             |
| Due from primary government                     |                            |                               |                   | 2,323               |
| Due from component units                        | 4,686                      |                               | 4,686             |                     |
| Internal balances                               | 3,059                      | (3,059)                       |                   |                     |
| Due from other governments and agencies         | 199,771                    | 1,254                         | 201,025           | 4,581               |
| Inventories                                     | 2,487                      | 754                           | 3,241             | 9,007               |
| Other assets                                    | 49,079                     | 711                           | 49,790            | 12,742              |
| <b>Total current assets</b>                     | <b>1,431,254</b>           | <b>254,388</b>                | <b>1,685,642</b>  | <b>2,683,220</b>    |
| Noncurrent assets:                              |                            |                               |                   |                     |
| Investments                                     |                            |                               |                   | 143,737             |
| Receivables (net)                               | 780                        |                               | 780               | 1,168,506           |
| Restricted assets:                              |                            |                               |                   |                     |
| Cash and cash equivalents                       |                            |                               |                   | 102,032             |
| Investments                                     |                            |                               |                   | 93,148              |
| Other assets                                    |                            |                               |                   | 173,993             |
| Due from component units                        | 22,953                     |                               | 22,953            |                     |
| Capital assets - nondepreciable                 | 551,381                    | 31,780                        | 583,161           | 419,625             |
| Capital assets - depreciable (net)              | 905,527                    | 93,094                        | 998,621           | 1,010,216           |
| Other assets                                    | 9,068                      | 2,615                         | 11,683            | 85,856              |
| <b>Total noncurrent assets</b>                  | <b>1,489,709</b>           | <b>127,489</b>                | <b>1,617,198</b>  | <b>3,197,113</b>    |
| <b>Total assets</b>                             | <b>2,920,963</b>           | <b>381,877</b>                | <b>3,302,840</b>  | <b>5,880,333</b>    |
| <b>Liabilities</b>                              |                            |                               |                   |                     |
| Current Liabilities:                            |                            |                               |                   |                     |
| Cash overdraft                                  | 1,761                      | 24                            | 1,785             | 27                  |
| Accounts payable                                | 390,496                    | 11,012                        | 401,508           | 83,276              |
| Due to primary government                       |                            |                               |                   | 4,686               |
| Due to component units                          | 2,323                      |                               | 2,323             |                     |
| Due to other governments and agencies           | 398                        | 1,407                         | 1,805             | 3,776               |
| Deferred revenue                                | 22,966                     | 1,640                         | 24,606            | 24,191              |
| Other current liabilities                       | 148,558                    | 2,449                         | 151,007           | 63,938              |
| Current portion of long-term debt               | 166,409                    | 6,925                         | 173,334           | 396,665             |
| Obligation for unpaid prize awards              |                            | 6,553                         | 6,553             |                     |
| <b>Total current liabilities</b>                | <b>732,911</b>             | <b>30,010</b>                 | <b>762,921</b>    | <b>576,559</b>      |
| Noncurrent Liabilities:                         |                            |                               |                   |                     |
| Due to primary government                       |                            |                               |                   | 22,953              |
| Due to other governments and agencies           |                            |                               |                   | 4,258               |
| Deferred revenue                                |                            | 10,625                        | 10,625            | 5,379               |
| Notes payable                                   |                            |                               |                   | 13,556              |
| Loans payable                                   |                            |                               |                   | 213,990             |
| Obligations under capital leases                | 226,405                    |                               | 226,405           | 18,976              |
| Compensated absences                            | 17,855                     |                               | 17,855            | 22,241              |
| Bonds payable                                   | 1,706,911                  | 189,362                       | 1,896,273         | 2,944,612           |
| Other liabilities                               | 41,370                     |                               | 41,370            | 296,837             |
| <b>Total noncurrent liabilities</b>             | <b>1,992,541</b>           | <b>199,987</b>                | <b>2,192,528</b>  | <b>3,542,802</b>    |
| <b>Total liabilities</b>                        | <b>2,725,452</b>           | <b>229,997</b>                | <b>2,955,449</b>  | <b>4,119,361</b>    |
| <b>Net Assets</b>                               |                            |                               |                   |                     |
| Invested in capital assets, net of related debt | 816,578                    | (71,413)                      | 745,165           | 795,530             |
| Restricted for:                                 |                            |                               |                   |                     |
| Budget reserve                                  | 90,887                     |                               | 90,887            |                     |
| Transportation                                  | 1,353                      |                               | 1,353             |                     |
| Debt  | 91,094                     | 16,485                        | 107,579           | 518,231             |
| Employment insurance programs                   | 132,036                    | 216,991                       | 349,027           |                     |
| Other   |                            |                               |                   | 155,203             |
| Other nonexpendable                             |                            |                               |                   | 66,678              |
| Unrestricted                                    | (936,437)                  | (10,183)                      | (946,620)         | 225,330             |
| <b>Total net assets</b>                         | <b>\$ 195,511</b>          | <b>\$ 151,880</b>             | <b>\$ 347,391</b> | <b>\$ 1,760,972</b> |

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, 2005**  
**(Expressed in Thousands)**

| Functions/Programs                                  | Program Revenues    |                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                    | Component Units     |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|---------------------|
|   | Expenses            | Charges for Services | Operating grants and contributions | Capital grants and contributions | Primary Government                              |                          | Totals             |                     |
|   |                     |                      |                                    |                                  | Governmental activities                         | Business-type activities |                    |                     |
| <b>Primary government:</b>                          |                     |                      |                                    |                                  |   |                          |                    |                     |
| Governmental activities:                            |                     |                      |                                    |                                  |   |                          |                    |                     |
| General government                                  | \$ 503,659          | \$ 141,290           | \$ 70,512                          | \$ 356                           | \$ (291,501)                                    |                          | \$ (291,501)       | \$                  |
| Human services                                      | 2,512,628           | 122,212              | 1,347,214                          | 190                              | (1,043,012)                                     |                          | (1,043,012)        |                     |
| Education   | 264,385             | 3,469                | 186,892                            | 33                               | (73,991)  |                          | (73,991)           |                     |
| Public safety                                       | 336,069             | 46,216               | 30,680                             | 732                              | (258,441)                                       |                          | (258,441)          |                     |
| Natural resources                                   | 65,913              | 30,340               | 18,129                             | 4,274                            | (13,170)  |                          | (13,170)           |                     |
| Transportation                                      | 226,529             | 8,257                | 141,538                            | 92,096                           | 15,362  |                          | 15,362             |                     |
| Intergovernmental                                   | 1,127,496           |                      |                                    |                                  | (1,127,496)                                     |                          | (1,127,496)        |                     |
| Interest and other charges                          | 116,171             |                      |                                    |                                  | (116,171)                                       |                          | (116,171)          |                     |
| Total governmental activities                       | <u>5,152,850</u>    | <u>351,784</u>       | <u>1,794,965</u>                   | <u>97,681</u>                    | <u>(2,908,420)</u>                              |                          | <u>(2,908,420)</u> |                     |
| Business-type activities:                           |                     |                      |                                    |                                  |   |                          |                    |                     |
| State lottery                                       | 1,330,298           | 1,636,638            |                                    |                                  |   | 306,340                  | 306,340            |                     |
| Convention center                                   | 35,746              | 14,042               |                                    |                                  |   | (21,704)                 | (21,704)           |                     |
| Employment security                                 | 209,018             | 184,831              | 2,633                              |                                  |   | (21,554)                 | (21,554)           |                     |
| Total business-type activities                      | <u>1,575,062</u>    | <u>1,835,511</u>     | <u>2,633</u>                       |                                  |   | <u>263,082</u>           | <u>263,082</u>     |                     |
| Total primary government                            | <u>\$ 6,727,912</u> | <u>\$ 2,187,295</u>  | <u>\$ 1,797,598</u>                | <u>\$ 97,681</u>                 | <u>(2,908,420)</u>                              | <u>263,082</u>           | <u>(2,645,338)</u> |                     |
| <b>Component units</b>                              | <u>\$ 1,056,770</u> | <u>\$ 736,388</u>    | <u>\$ 39,096</u>                   | <u>\$ 38,239</u>                 |   |                          |                    | <u>(243,047)</u>    |
| <b>General Revenues:</b>                            |                     |                      |                                    |                                  |   |                          |                    |                     |
| Taxes   |                     |                      |                                    |                                  | 2,687,684                                       |                          | 2,687,684          |                     |
| Interest and investment earnings                    |                     |                      |                                    |                                  | 14,443  | 10,875                   | 25,318             | 47,108              |
| Miscellaneous                                       |                     |                      |                                    |                                  | 104,411   | 7,633                    | 112,044            | 26,327              |
| Gain on sale of capital assets                      |                     |                      |                                    |                                  | 853   |                          | 853                | 2,897               |
| Special items                                       |                     |                      |                                    |                                  |   | 11,948                   | 11,948             |                     |
| Transfers   |                     |                      |                                    |                                  | 293,993   | (293,993)                |                    |                     |
| Payments from component units                       |                     |                      |                                    |                                  | 18,503  |                          | 18,503             |                     |
| Payments from primary government                    |                     |                      |                                    |                                  |   |                          |                    | 259,463             |
| Total general revenues, special items and transfers |                     |                      |                                    |                                  | <u>3,119,887</u>                                | <u>(263,537)</u>         | <u>2,856,350</u>   | <u>335,795</u>      |
| Change in net assets                                |                     |                      |                                    |                                  | 211,467   | (455)                    | 211,012            | 92,748              |
| Net assets - beginning, as restated                 |                     |                      |                                    |                                  | (15,956)  | 152,335                  | 136,379            | 1,668,224           |
| Net assets - ending                                 |                     |                      |                                    |                                  | <u>\$ 195,511</u>                               | <u>\$ 151,880</u>        | <u>\$ 347,391</u>  | <u>\$ 1,760,972</u> |

Exhibit A-18

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

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**  
**(Expressed in Thousands)**

|  | <u>General</u>    | <u>Intermodal<br/>Surface<br/>Transportation</u> | <u>GARVEE</u>     | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------|--|-------------------|---|---|
| <b>Assets</b>                              |                   |  |                   |   |   |
| Cash and cash equivalents                  | \$ 264,618        | \$ 11,176  | \$                | \$ 190,402                              | \$ 466,196                              |
| Funds on deposit with fiscal agent         |                   |  | 211,905           | 109,146                                 | 321,051                                 |
| Investments                                |                   |  |                   | 143                                     | 143                                     |
| Restricted investments                     |                   |  |                   | 74,542                                  | 74,542                                  |
| Receivables (net)                          | 229,063           | 13,342   |                   | 41,181                                  | 283,586                                 |
| Due from other funds                       |                   |  |                   | 7,829                                   | 7,829                                   |
| Due from component units                   | 1,049             |  |                   | 10                                      | 1,059                                   |
| Due from other governments<br>and agencies | 131,753           | 65,561   |                   | 2,457                                   | 199,771                                 |
| Loans to other funds                       | 22                |  |                   |   | 22                                      |
| Other assets                               | 38,894            |  | 212               | 517                                     | 39,623                                  |
| <b>Total assets</b>                        | <b>\$ 665,399</b> | <b>\$ 90,079</b>                                 | <b>\$ 212,117</b> | <b>\$ 426,227</b>                       | <b>\$ 1,393,822</b>                     |
| <b>Liabilities and Fund Balances</b>       |                   |  |                   |   |   |
| <b>Liabilities</b>                         |                   |  |                   |   |   |
| Accounts payable                           | 321,938           | 28,072   | 15,343            | 7,077                                   | 372,430                                 |
| Due to other funds                         | 438               | 3,202  | 924               | 1,446                                   | 6,010                                   |
| Due to component units                     |                   | 2,323  |                   |   | 2,323                                   |
| Due to other governments and agencies      |                   | 398  |                   |   | 398                                     |
| Loans from other funds                     |                   |  |                   | 22                                      | 22                                      |
| Deferred revenue                           | 34,183            | 22,068   |                   | 66                                      | 56,317                                  |
| Other liabilities                          | 124,038           | 76   |                   | 589                                     | 124,703                                 |
| <b>Total liabilities</b>                   | <b>480,597</b>    | <b>56,139</b>                                    | <b>16,267</b>     | <b>9,200</b>                            | <b>562,203</b>                          |
| <b>Fund Balances</b>                       |                   |  |                   |   |   |
| Reserved for:                              |                   |  |                   |   |   |
| Budget reserve                             | 90,887            |  |                   |   | 90,887                                  |
| Appropriations carried forward             | 55,216            |  |                   |   | 55,216                                  |
| Debt                                       |                   |  | 9,341             | 81,753                                  | 91,094                                  |
| State infrastructure bank                  |                   | 1,353  |                   |   | 1,353                                   |
| Employment insurance programs              |                   |  |                   | 132,036                                 | 132,036                                 |
| Unreserved, reported in:                   |                   |  |                   |   |   |
| General fund                               | 38,699            |  |                   |   | 38,699                                  |
| Special revenue funds                      |                   | 32,587   |                   | 1                                       | 32,588                                  |
| Capital projects funds                     |                   |  | 186,509           | 202,320                                 | 388,829                                 |
| Permanent fund                             |                   |  |                   | 917                                     | 917                                     |
| <b>Total fund balances</b>                 | <b>184,802</b>    | <b>33,940</b>                                    | <b>195,850</b>    | <b>417,027</b>                          | <b>831,619</b>                          |
| <b>Total liabilities and fund balances</b> | <b>\$ 665,399</b> | <b>\$ 90,079</b>                                 | <b>\$ 212,117</b> | <b>\$ 426,227</b>                       | <b>\$ 1,393,822</b>                     |

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, 2005  
 (Expressed in Thousands)

|  |    |             |
|--|----|-------------|
| Fund balance - total governmental funds  | \$ | 831,619     |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |    |             |
| Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.  |    | 1,452,214   |
| Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.           |    | (2,158,152) |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.   |    | 52,398      |
| 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. |    | 17,432      |
| Net assets - total governmental activities   | \$ | 195,511     |

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, 2005**  
**(Expressed in Thousands)**

|  | General           | Intermodal<br>Surface<br>Transportation | GARVEE            | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|---|-------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>   |                   |   |                   |                                |                                |
| Taxes  | \$ 2,376,770      | \$ 142,696                              | \$                | \$ 168,016                     | \$ 2,687,482                   |
| Licenses, fines, sales, and services                         | 238,256           | 35                                      |                   | 53                             | 238,344                        |
| Departmental restricted revenue                              | 105,367           | 8,222                                   |                   |                                | 113,589                        |
| Federal grants   | 1,655,563         | 226,839                                 |                   | 1,702                          | 1,884,104                      |
| Income from investments                                      |                   | 191                                     | 6,495             | 7,084                          | 13,770                         |
| Other revenues   | 32,563            | 2,042                                   |                   | 46,267                         | 80,872                         |
| <b>Total operating revenues</b>                              | <b>4,408,519</b>  | <b>380,025</b>                          | <b>6,495</b>      | <b>223,122</b>                 | <b>5,018,161</b>               |
| <b>Expenditures:</b>   |                   |   |                   |                                |                                |
| Current:   |                   |   |                   |                                |                                |
| General government   | 329,197           |   |                   | 183,699                        | 512,896                        |
| Human services   | 2,504,107         |   |                   | 2,822                          | 2,506,929                      |
| Education  | 255,762           |   |                   | 9,239                          | 265,001                        |
| Public safety  | 328,824           |   |                   | 15                             | 328,839                        |
| Natural resources  | 62,338            |   |                   | 1,800                          | 64,138                         |
| Transportation   |                   | 203,588                                 | 4,830             | 1,052                          | 209,470                        |
| Capital outlays  | 33,105            | 106,626                                 | 65,449            | 36,126                         | 241,306                        |
| Intergovernmental  | 1,121,818         | 1,880                                   |                   | 3,798                          | 1,127,496                      |
| Debt service:  |                   |   |                   |                                |                                |
| Principal  | 72,848            | 719                                     | 35,905            | 6,850                          | 116,322                        |
| Interest and other charges                                   | 52,293            | 100                                     | 12,708            | 45,142                         | 110,243                        |
| <b>Total operating expenditures</b>                          | <b>4,760,292</b>  | <b>312,913</b>                          | <b>118,892</b>    | <b>290,543</b>                 | <b>5,482,640</b>               |
| Excess (deficiency) of revenues<br>over (under) expenditures | (351,773)         | 67,112                                  | (112,397)         | (67,421)                       | (464,479)                      |
| <b>Other financing sources (uses):</b>                       |                   |   |                   |                                |                                |
| Bonds and notes issued                                       |                   |   |                   | 87,095                         | 87,095                         |
| Refunding bonds issued                                       |                   |   |                   | 117,010                        | 117,010                        |
| Proceeds from the sale of Certificates<br>of Participation   |                   |   |                   | 139,410                        | 139,410                        |
| Premium and accrued interest                                 |                   |   |                   | 17,602                         | 17,602                         |
| Operating transfers in                                       | 399,257           | 32,701                                  | 51,322            | 54,338                         | 537,618                        |
| Payments from component units                                | 18,503            |   |                   |                                | 18,503                         |
| Other  | 34,941            |   |                   | 142                            | 35,083                         |
| Payment to refunded bonds escrow agent                       |                   |   |                   | (123,300)                      | (123,300)                      |
| Operating transfers out                                      | (72,420)          | (103,670)                               |                   | (66,425)                       | (242,515)                      |
| <b>Total other financing sources (uses)</b>                  | <b>380,281</b>    | <b>(70,969)</b>                         | <b>51,322</b>     | <b>225,872</b>                 | <b>586,506</b>                 |
| <b>Net change in fund balances</b>                           | <b>28,508</b>     | <b>(3,857)</b>                          | <b>(61,075)</b>   | <b>158,451</b>                 | <b>122,027</b>                 |
| Fund balances - beginning (restated)                         | 156,294           | 37,797                                  | 256,925           | 258,576                        | 709,592                        |
| <b>Fund balances - ending</b>                                | <b>\$ 184,802</b> | <b>\$ 33,940</b>                        | <b>\$ 195,850</b> | <b>\$ 417,027</b>              | <b>\$ 831,619</b>              |

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, 2005  
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 122,027

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. 198,624

Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. (121,576)

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. 3,595

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. 8,797

Change in net assets - total governmental activities \$ 211,467

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, 2005**  
**(Expressed in Thousands)**

|   | Business-type Activities--<br>Enterprise Funds |                              |                        | Governmental<br>Activities |                           |
|---|--|------------------------------|------------------------|----------------------------|---------------------------|
|   | R.I. State<br>Lottery                          | R.I.<br>Convention<br>Center | Employment<br>Security | Totals                     | Internal<br>Service Funds |
| <b>Assets</b>                                   |  |                              |                        |                            |                           |
| Current assets:                                 |  |                              |                        |                            |                           |
| Cash and cash equivalents                       | \$ 7,899                                       | \$ 2,465                     | \$ 364                 | \$ 10,728                  | \$ 14,554                 |
| Restricted cash and cash equivalents            |  | 17,063                       |                        | 17,063                     |                           |
| Funds on deposit with fiscal agent              |  |                              | 165,887                | 165,887                    |                           |
| Receivables (net)                               | 7,820  | 828                          | 52,402                 | 61,050                     | 11,885                    |
| Due from other funds                            |  |                              |                        |                            | 3,766                     |
| Due from other governments and agencies         |  |                              | 1,254                  | 1,254                      |                           |
| Inventories                                     | 754  |                              |                        | 754                        | 2,487                     |
| Other assets                                    | 201  | 510                          |                        | 711                        | 9,456                     |
| Total current assets                            | <u>16,674</u>                                  | <u>20,866</u>                | <u>219,907</u>         | <u>257,447</u>             | <u>42,148</u>             |
| Noncurrent assets:                              |  |                              |                        |                            |                           |
| Capital assets - nondepreciable                 |  | 31,780                       |                        | 31,780                     |                           |
| Capital assets - depreciable (net)              | 1,550  | 91,544                       |                        | 93,094                     | 3,280                     |
| Other assets                                    |  | 2,615                        |                        | 2,615                      | 390                       |
| Total noncurrent assets                         | <u>1,550</u>                                   | <u>125,939</u>               |                        | <u>127,489</u>             | <u>3,670</u>              |
| Total assets                                    | <u>18,224</u>                                  | <u>146,805</u>               | <u>219,907</u>         | <u>384,936</u>             | <u>45,818</u>             |
| <b>Liabilities</b>                              |  |                              |                        |                            |                           |
| Current Liabilities:                            |  |                              |                        |                            |                           |
| Cash overdraft                                  | 24   |                              |                        | 24                         | 1,761                     |
| Accounts payable                                | 9,367  | 1,645                        |                        | 11,012                     | 18,393                    |
| Due to other funds                              | 1,550  |                              | 1,509                  | 3,059                      | 2,526                     |
| Due to other governments and agencies           |  |                              | 1,407                  | 1,407                      |                           |
| Deferred revenue                                | 804  | 836                          |                        | 1,640                      |                           |
| Other current liabilities                       | 551  | 1,898                        |                        | 2,449                      | 2,426                     |
| Bonds payable                                   |  | 6,925                        |                        | 6,925                      |                           |
| Obligations under capital leases                |  |                              |                        |                            | 595                       |
| Obligation for unpaid prize awards              | 6,553  |                              |                        | 6,553                      |                           |
| Total current liabilities                       | <u>18,849</u>                                  | <u>11,304</u>                | <u>2,916</u>           | <u>33,069</u>              | <u>25,701</u>             |
| Noncurrent Liabilities:                         |  |                              |                        |                            |                           |
| Deferred contract revenue                       | 10,625   |                              |                        | 10,625                     |                           |
| Obligations under capital leases                |  |                              |                        |                            | 137                       |
| Bonds payable                                   |  | 189,362                      |                        | 189,362                    |                           |
| Total noncurrent liabilities                    | <u>10,625</u>                                  | <u>189,362</u>               |                        | <u>199,987</u>             | <u>137</u>                |
| Total liabilities                               | <u>29,474</u>                                  | <u>200,666</u>               | <u>2,916</u>           | <u>233,056</u>             | <u>25,838</u>             |
| <b>Net Assets</b>                               |  |                              |                        |                            |                           |
| Invested in capital assets, net of related debt | 1,550  | (72,963)                     |                        | (71,413)                   | 2,548                     |
| Restricted for:                                 |  |                              |                        |                            |                           |
| Debt  |  | 16,485                       |                        | 16,485                     |                           |
| Employment insurance programs                   |  |                              | 216,991                | 216,991                    |                           |
| Unrestricted                                    | (12,800)                                       | 2,617                        |                        | (10,183)                   | 17,432                    |
| Total net assets                                | <u>\$ (11,250)</u>                             | <u>\$ (53,861)</u>           | <u>\$ 216,991</u>      | <u>\$ 151,880</u>          | <u>\$ 19,980</u>          |

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

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|   | Business-type Activities--<br>Enterprise Funds |                              |                        | Governmental<br>Activities |                           |
|---|--|------------------------------|------------------------|----------------------------|---------------------------|
|   | R.I. State<br>Lottery                          | R.I.<br>Convention<br>Center | Employment<br>Security | Totals                     | Internal<br>Service Funds |
| Operating revenues:                                 |  |                              |                        |                            |                           |
| Charges for services                                | \$ 1,636,638                                   | \$ 13,110                    | \$ 183,952             | \$ 1,833,700               | \$ 211,519                |
| Grants  |  |                              | 2,633                  | 2,633                      |                           |
| Miscellaneous                                       |  | 932                          | 879                    | 1,811                      |                           |
| Total operating revenues                            | 1,636,638                                      | 14,042                       | 187,464                | 1,838,144                  | 211,519                   |
| Operating expenses:                                 |  |                              |                        |                            |                           |
| Personal services                                   | 3,963  | 5,274                        |                        | 9,237                      | 18,459                    |
| Supplies, materials, and services                   | 187,024  | 9,480                        |                        | 196,504                    | 179,121                   |
| Prize awards  | 1,138,998                                      |                              |                        | 1,138,998                  |                           |
| Depreciation and amortization                       | 313  | 5,924                        |                        | 6,237                      | 750                       |
| Benefits paid                                       |  |                              | 202,178                | 202,178                    |                           |
| Total operating expenses                            | 1,330,298                                      | 20,678                       | 202,178                | 1,553,154                  | 198,330                   |
| Operating income (loss)                             | 306,340  | (6,636)                      | (14,714)               | 284,990                    | 13,189                    |
| Nonoperating revenues (expenses):                   |  |                              |                        |                            |                           |
| Interest revenue                                    |  | 1,435                        | 9,440                  | 10,875                     | 89                        |
| Other nonoperating revenue                          | 1,835  |                              | 5,798                  | 7,633                      |                           |
| Interest expense                                    |  | (15,068)                     |                        | (15,068)                   |                           |
| Other nonoperating expenses                         |  |                              | (6,840)                | (6,840)                    | 9                         |
| Total nonoperating revenue (expenses)               | 1,835  | (13,633)                     | 8,398                  | (3,400)                    | 98                        |
| Income (loss) before special items<br>and transfers | 308,175  | (20,269)                     | (6,316)                | 281,590                    | 13,287                    |
| Special items                                       |  | 11,948                       |                        | 11,948                     |                           |
| Transfers in  |  | 18,083                       | 1,106                  | 19,189                     |                           |
| Transfers out                                       | (307,550)                                      |                              | (5,632)                | (313,182)                  | (1,110)                   |
| Change in net assets                                | 625  | 9,762                        | (10,842)               | (455)                      | 12,177                    |
| Total net assets - beginning                        | (11,875)                                       | (63,623)                     | 227,833                | 152,335                    | 7,803                     |
| Total net assets - ending                           | <u>\$ (11,250)</u>                             | <u>\$ (53,861)</u>           | <u>\$ 216,991</u>      | <u>\$ 151,880</u>          | <u>\$ 19,980</u>          |

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

State of Rhode Island and Providence Plantations  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2005  
(Expressed in Thousands)

|  | Business-type Activities--<br>Enterprise Funds |                              |                        | Governmental<br>Activities |                           |
|--|--|------------------------------|------------------------|----------------------------|---------------------------|
|  | R.I. State<br>Lottery                          | R.I.<br>Convention<br>Center | Employment<br>Security | Totals                     | Internal<br>Service Funds |
| <b>Cash flows from operating activities:</b>   |  |                              |                        |                            |                           |
| Cash received from customers   | \$ 1,641,923                                   | \$ 18,141                    | \$ 176,894             | \$ 1,836,958               | \$ 203,055                |
| Cash received from grants  |  |                              | 2,633                  | 2,633                      |                           |
| Cash payments to suppliers for goods and services  | (3,544)  | (12,767)                     |                        | (16,311)                   | (175,504)                 |
| Cash payments to employees for services  | (3,901)  | (6,559)                      |                        | (10,460)                   | (17,581)                  |
| Cash payments to prize winners   | (1,144,881)                                    |                              |                        | (1,144,881)                |                           |
| Cash payments for commissions  | (182,987)                                      |                              |                        | (182,987)                  |                           |
| Cash payments for benefits   |  |                              | (202,205)              | (202,205)                  |                           |
| Other operating revenue (expense)  |  |                              | (1,579)                | (1,579)                    | 9                         |
| Net cash provided by (used for) operating activities   | <u>306,610</u>                                 | <u>(1,185)</u>               | <u>(24,257)</u>        | <u>281,168</u>             | <u>9,979</u>              |
| <b>Cash flows from noncapital financing activities:</b>  |  |                              |                        |                            |                           |
| Loans from other funds   |  |                              |                        |                            | 19,050                    |
| Repayment of loans to other funds  |  |                              |                        |                            | (19,150)                  |
| Operating transfers in   |  | 17,053                       | 1,106                  | 18,159                     |                           |
| Operating transfers out  | (307,142)                                      |                              | (5,483)                | (312,625)                  | (1,106)                   |
| Net transfers from (to) fiscal agent   |  |                              | 27,878                 | 27,878                     |                           |
| Negative cash balance implicitly financed  | 24   |                              |                        | 24                         | 1,761                     |
| Net cash provided by (used for) noncapital financing activities  | <u>(307,118)</u>                               | <u>17,053</u>                | <u>23,501</u>          | <u>(266,564)</u>           | <u>555</u>                |
| <b>Cash flows from capital and related financing activities:</b>   |  |                              |                        |                            |                           |
| Principal paid on capital obligations  |  | (99,465)                     |                        | (99,465)                   | (523)                     |
| Interest paid on capital obligations   |  | (14,302)                     |                        | (14,302)                   |                           |
| Acquisition of capital assets  | (156)  | (5,254)                      |                        | (5,410)                    | (247)                     |
| Proceeds from the disposition of capital assets  |  | 95,002                       |                        | 95,002                     |                           |
| Net cash provided by (used for) capital and related financing activities   | <u>(156)</u>                                   | <u>(24,019)</u>              |                        | <u>(24,175)</u>            | <u>(770)</u>              |
| <b>Cash flows from investing activities:</b>   |  |                              |                        |                            |                           |
| Proceeds from sale and maturity of investments   |  | 17,174                       |                        | 17,174                     |                           |
| Interest on investments  | 606  | 1,359                        |                        | 1,965                      | 90                        |
| Net cash provided by (used for) investing activities   | <u>606</u>                                     | <u>18,533</u>                |                        | <u>19,139</u>              | <u>90</u>                 |
| Net increase (decrease) in cash and cash equivalents   | <u>(58)</u>                                    | <u>10,382</u>                | <u>(756)</u>           | <u>9,568</u>               | <u>9,854</u>              |
| Cash and cash equivalents, July 1  | 7,957  | 9,146                        | 1,120                  | 18,223                     | 4,700                     |
| Cash and cash equivalents, June 30   | <u>\$ 7,899</u>                                | <u>\$ 19,528</u>             | <u>\$ 364</u>          | <u>\$ 27,791</u>           | <u>\$ 14,554</u>          |
| <b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>        |  |                              |                        |                            |                           |
| Operating income (loss)  | 306,340  | (6,636)                      | (14,714)               | 284,990                    | 13,189                    |
| <b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b> |  |                              |                        |                            |                           |
| Depreciation and amortization  | 313  | 18,588                       |                        | 18,901                     | 749                       |
| Other revenue (expense) and operating transfer in (out)  | 389  | (10,107)                     | (2,486)                | (12,204)                   | 5                         |
| Net changes in assets and liabilities:   |  |                              |                        |                            |                           |
| Receivables, net   | (1,623)  | 1,068                        | (7,030)                | (7,585)                    | (10,088)                  |
| Inventory  | 295  |                              |                        | 295                        | (199)                     |
| Prepaid items  |  | 423                          |                        | 423                        | (8,711)                   |
| Other assets   | 237  |                              |                        | 237                        |                           |
| Accounts and other payables  | 110  | (2,227)                      | (27)                   | (2,144)                    | 14,040                    |
| Accrued expenses   | 171  | (2,012)                      |                        | (1,841)                    | 994                       |
| Deferred revenue   | 14   | (282)                        |                        | (268)                      |                           |
| Prize awards payable   | 364  |                              |                        | 364                        |                           |
| Total adjustments  | <u>270</u>                                     | <u>5,451</u>                 | <u>(9,543)</u>         | <u>(3,822)</u>             | <u>(3,210)</u>            |
| Net cash provided by (used for) operating activities   | <u>\$ 306,610</u>                              | <u>\$ (1,185)</u>            | <u>\$ (24,257)</u>     | <u>\$ 281,168</u>          | <u>\$ 9,979</u>           |

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

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**  
**(Expressed in Thousands)**

|   | <b>Pension<br/>Trust</b> | <b>Private Purpose</b>            |               |
|---|--------------------------|-----------------------------------|---------------|
|   |                          | <b>Touro Jewish<br/>Synagogue</b> | <b>Agency</b> |
| <b>Assets</b>   |                          |                                   |               |
| Cash and cash equivalents   | \$ 4,622                 | \$                                | \$ 15,286     |
| Deposits held as security for entities<br>doing business in the State       |                          |                                   | 67,148        |
| <b>Receivables</b>  |                          |                                   |               |
| Contributions   | 23,080                   |                                   |               |
| Due from state for teachers   | 11,202                   |                                   |               |
| Miscellaneous   | 3,883                    |                                   |               |
| Total receivables   | <u>38,165</u>            |                                   |               |
| <b>Investments, at fair value</b>   |                          |                                   |               |
| Equity in Short-Term Investment Fund  | 18,610                   |                                   |               |
| Equity in Pooled Trust  | 6,665,539                |                                   |               |
| Plan specific investments   | 15,984                   |                                   |               |
| Other investments   |                          | 2,010                             |               |
| Total investments<br>before lending activities                              | <u>6,700,133</u>         | <u>2,010</u>                      |               |
| Invested securities lending collateral                                      | <u>1,010,616</u>         |                                   |               |
| <b>Property and equipment, at cost, net<br/>of accumulated depreciation</b> |                          |                                   |               |
| Total Property and Equipment  | <u>13,336</u>            |                                   |               |
| Total assets  | <u>7,766,872</u>         | <u>2,010</u>                      | <u>82,434</u> |
| <b>Liabilities</b>  |                          |                                   |               |
| Securities lending liability  | 1,010,616                |                                   |               |
| Accounts payable  | 6,432                    |                                   |               |
| Deposits held for others  |                          |                                   | 82,434        |
| Total liabilities   | <u>1,017,048</u>         |                                   | <u>82,434</u> |
| Net assets held in trust for pension<br>and other benefits                  | <u>\$ 6,749,824</u>      | <u>\$ 2,010</u>                   | <u>\$</u>     |

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

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fund Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|  | <u>Pension<br/>Trust</u> | <u>Private Purpose<br/>Touro Jewish<br/>Synagogue</u> |
|--|--------------------------|---|
| <b>Additions</b>   |                          |   |
| Contributions  |                          |   |
| Member contributions   | \$ 154,362               | \$  |
| Employer contributions                                       | 158,635                  |   |
| State contributions for teachers                             | 48,835                   |   |
| Interest on service credits purchased                        | 1,568                    |   |
| Total contributions  | <u>363,400</u>           |   |
| Investment income  |                          |   |
| Net appreciation (depreciation) in fair value of investments | 517,402                  | 172   |
| Interest   | 84,922                   | 24  |
| Dividends  | 69,685                   |   |
| Other investment income                                      | 56,284                   |   |
|  | <u>728,293</u>           | <u>196</u>  |
| Less investment expense                                      | 21,990                   |   |
| Net income from investing activities                         | <u>706,303</u>           | <u>196</u>  |
| Securities Lending   |                          |   |
| Securities lending income                                    | 20,479                   |   |
| Less securities lending expense                              | 18,494                   |   |
| Net securities lending income                                | <u>1,985</u>             |   |
| Total net investment income                                  | <u>708,288</u>           | <u>196</u>  |
| Total additions  | <u>1,071,688</u>         | <u>196</u>  |
| <b>Deductions</b>  |                          |   |
| Benefits   |                          |   |
| Retirement benefits  | 431,370                  |   |
| Cost of living adjustment                                    | 101,340                  |   |
| SRA Plus Option  | 27,711                   |   |
| Supplemental benefits  | 1,067                    |   |
| Death benefits   | 3,087                    |   |
| Total benefits   | <u>564,575</u>           |   |
| Refund of contributions                                      | 10,730                   |   |
| Administrative expense                                       | 6,452                    |   |
| Distribution   |                          | 89  |
| Total deductions   | <u>581,757</u>           | <u>89</u>   |
| Change in net assets   | 489,931                  | 107   |
| Net assets held in trust for<br>pension benefits             |                          |   |
| Net assets - beginning                                       | 6,259,893                | 1,903   |
| Net assets - ending  | <u>\$ 6,749,824</u>      | <u>\$ 2,010</u>                                       |

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

State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

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

**B. Reporting Entity**

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

**Blended Component Units**

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

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

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

State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2005

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

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

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

**Discretely Presented Component Units**

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

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

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2005**

Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of The Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

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

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

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

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

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

**Narragansett Bay Commission (NBC)** - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2005**

owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

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

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

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

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

**Rhode Island Industrial Facilities Corporation (RIIFC)** - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2005**

of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

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

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

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

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

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

**Rhode Island Underground Storage Tank Responsibility (RIUSTR)** - The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the

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financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

**C. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The State reports the following major funds:

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

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

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds,

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related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

The State reports the following major proprietary funds:

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

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

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

Additionally, the State reports the following fund types:

**Governmental Fund Types:**

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

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

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

**Proprietary Fund Types:**

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

**Fiduciary Fund Types:**

**Pension Trust Funds.** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement

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Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

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

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

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

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

**E. Cash and Cash Equivalents**

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

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

**F. Funds on Deposit with Fiscal Agent**

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

**G. Investments**

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a

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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.

**I. Due From Other Governments and Agencies**

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

**J. Interfund Activity**

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

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

**K. Inventories**

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

**L. Capital Assets**

Capital assets, which include all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not

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rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

**M. Bonds Payable**

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts/premiums and issuance costs are recognized in the current period. Bond discounts, premiums and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable. Bond issuance costs are included in other assets.

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**N. Obligations under Capital Leases**

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

**O. Compensated Absences**

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

**P. Other Liabilities**

Other liabilities includes, among other things, escrow deposits, accrued salary and fringe benefits for the governmental fund types; accrued interest payable, accrued salaries, accrued vacation and sick leave for the business fund types and escrow deposits, land fill 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. Change in Presentation**

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

**S. New Pronouncements**

The State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*

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**Note 2. Budgeting and Budgetary Control**

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

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

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

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

**Note 3. Cash, Cash Equivalents and Investments**

**Cash**

Primary Government

At June 30, 2005, the carrying amount of the State's cash deposits was \$119,351,000 and the bank balance was \$142,294,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, \$921,000 was covered by federal depository insurance and \$76,939,000 was collateralized with securities held by the pledging financial

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institution, as it's agent but not in the State's name. The remaining amount, \$64,434,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$2,171,000 of certificates of deposit.

In December 2004, the General Fund borrowed \$50,000,000 from the R.I. Temporary Disability Fund to cover a cash shortfall as permitted under RIGL 35-3-23. This loan was repaid in full as of June 30, 2005 with interest at the rate of 2.49%, which reflected the average General Fund investment rate for the applicable period.

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, 2005.

**Investments**

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2005, the State's investments in GE Capital Corporation commercial paper was rated A1+ by Standard and Poors and P1 by Moody's. The State's investments in Morgan Stanley commercial paper was rated A1 by Standard and Poors and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in mutual funds were rated Aaa by Moody's.

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.

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Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name. Of the State's \$26,338,000 investment in repurchase agreements, \$1,714,000 of underlying securities are held by the investment's counterparty, not in the name of the State.

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

| Type                            | Issuer                 | Amount    | Percentage |
|---------------------------------|------------------------|-----------|------------|
| Commercial Paper                | GE Capital Corporation | \$ 44,693 | 9.6%       |
| Repurchase Agreements           | Citizens Bank          | 24,624    | 5.3%       |
| Commercial Paper                | Morgan Stanley         | 51,922    | 11.2%      |
| US Government Agency Securities | Federal Home Loan Bank | 45,700    | 9.9%       |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is mitigated by the portfolio's short duration (<7 days).

The State's investments (expressed in thousands) at June 30, 2005 all having maturities of less than one year are as follows.

| Investment Type                             | Fair Value       |
|---|------------------|
| U.S. Government Agency Securities           | \$ 66,308        |
| Money Market                                | 271,616          |
| Commercial Paper                            | 99,613           |
| Repurchase Agreements                       | 26,338           |
|   | <u>463,875</u>   |
| Less amounts classified as cash equivalents | 389,190          |
| Investments                                 | <u>\$ 74,685</u> |

Fiduciary Funds

**Pension Trusts**

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRBT).

**Cash**

At June 30, 2005, the carrying amounts of these plans' cash deposits (expressed in thousands) are listed below:

|              | ERSP     | MERS   | SPRBT  | JRBT   | Total    |
|--------------|----------|--------|--------|--------|----------|
| Book balance | \$ 3,996 | \$ 190 | \$ 261 | \$ 175 | \$ 4,622 |
| Bank balance | 3,821    | 538    | 263    | 176    | 4,798    |

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The bank balances represent the plans' deposits in short-term trust accounts that are covered by federal depository insurance. At the end of each business day, the excess bank balances are invested in overnight repurchase agreements. The book and bank balances include fully collateralized deposits of \$99,151 and overnight repurchase agreements of \$1,179,382 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2005.

**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 ERSP with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Certain investments are not pooled and are held by only one plan (Plan specific investments). As of June 30, 2005, the ERS held a loan receivable with a fair value of \$15,000,000. This loan is secured by commercial real estate located in Rhode Island (see note 22 - Subsequent Events).

The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2005:

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| Investment Type                         | Fair Value          |
|---|---------------------|
| U.S. Government Securities              | \$ 539,403          |
| U.S. Government Agency Securities       | 415,813             |
| Collateralized Mortgage Obligations     | 75,625              |
| Corporate Bonds                         | 508,771             |
| International Corporate Bonds           | 47,195              |
| Domestic Equity Securities              | 1,211,576           |
| International Equity Securities         | 1,303,429           |
| Foreign Currencies                      | 12,758              |
| Private Equity                          | 399,942             |
| Real Estate                             | 16,351              |
| Money Market Mutual Fund                | 237,860             |
| Commingled Funds - Domestic Equity      | 1,788,279           |
| Commingled Funds - International Equity | 143,131             |
| Investments at Fair Value               | 6,700,133           |
| Securities Lending Collateral Pool      | 1,010,616           |
| <b>Total</b>                            | <b>\$ 7,710,749</b> |

**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 debt security manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. Currently each portfolio's duration must be within +/- 20-35% of the effective duration of the appropriate index. The fixed income indices currently used by the ERS are:

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

At June 30, 2005, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value (expresses in thousands) and the effective durations at June 30, 2005:

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| Investment Type                     | Fair Value          | Effective Duration |
|-------------------------------------|---------------------|--------------------|
| U.S. Government Securities          | \$ 539,403          | 5.18               |
| U.S. Government Agency Securities   | 415,813             | 2.56               |
| Collateralized Mortgage Obligations | 75,625              | 2.92               |
| Corporate Bonds                     | 508,771             | 4.24               |
| International Corporate Bonds       | 47,195              | 7.96               |
|                                     | <b>\$ 1,586,807</b> | <b>4.21</b>        |

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 29 days. The maximum maturity of any instrument in the money market mutual fund is 13 months.

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

**Credit Risk**

The ERS requires its fixed income managers to maintain a well-diversified portfolios by sector, credit rating and issuer.

The ERS directs its investment managers to maintain diversified portfolios by sector and by issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds. Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager is as follows:

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

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

The ERS's exposure to credit risk (expressed in thousand) as of June 30, 2005 is as follows:

| Quality Rating * | Collateralized Mortgage Obligations | U.S. Government Agency Securities | Corporate Bonds   | International Corporate Bonds |
|------------------|-------------------------------------|-----------------------------------|-------------------|-------------------------------|
| Aaa              | \$ 40,081                           | \$ 415,813                        | \$ 20,021         | \$ 8,232                      |
| Aa               | 7,058                               |                                   | 44,715            | 8,770                         |
| A                | 5,583                               |                                   | 119,803           | 14,514                        |
| Baa              | 1,880                               |                                   | 109,031           | 5,942                         |
| Ba               |                                     |                                   | 44,476            | 2,248                         |
| B                |                                     |                                   | 123,469           | 6,071                         |
| Caa              |                                     |                                   | 33,387            | 455                           |
| Ca               |                                     |                                   | 672               |                               |
| Not rated        | 21,023                              |                                   | 13,197            | 963                           |
|                  | <u>\$ 75,625</u>                    | <u>\$ 415,813</u>                 | <u>\$ 508,771</u> | <u>\$ 47,195</u>              |

\* Moody's bond rating

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

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2005 all securities were registered in the name of the ERS and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

**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

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risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

The ERS's exposure to foreign currency (expressed in thousands) risk at June 30, 2005, was as follows:

| Currency           | Currency         | Equities            | Fixed Income     | Total               |
|--------------------|------------------|---------------------|------------------|---------------------|
| Australian Dollar  | \$ 419           | \$ 82,682           | \$               | \$ 83,101           |
| Brazilian Real     |                  |                     | 4,625            | 4,625               |
| Canadian Dollar    | 259              | 49,125              | 4,556            | 53,940              |
| Danish Crone       | 54               | 4,157               |                  | 4,211               |
| Euro Currency      | 1,565            | 491,786             | 33,722           | 527,073             |
| Hong Kong Dollar   | 156              | 26,307              |                  | 26,463              |
| Hungarian Forint   |                  |                     | 358              | 358                 |
| Indonesian Rupiah  | 167              | 2,177               |                  | 2,344               |
| Japanese Yen       | 1,607            | 256,658             |                  | 258,265             |
| Malaysian Ringitt  |                  |                     | 781              | 781                 |
| Mexican Peso       | 15               | 222                 | 695              | 932                 |
| New Zealand Dollar | 15               | 10,294              |                  | 10,309              |
| Norwegian Krone    | 22               | 14,616              |                  | 14,638              |
| Pound Sterling     | 2,616            | 250,934             | 1,998            | 255,548             |
| Singapore Dollar   | 273              | 17,239              |                  | 17,512              |
| South African Rand | 580              | 7,022               |                  | 7,602               |
| South Korean Won   | 1,252            | 14,293              |                  | 15,545              |
| Swedish Krona      | 3,508            | 18,416              | 818              | 22,742              |
| Swiss Franc        | 250              | 54,898              |                  | 55,148              |
| New Taiwan Dollar  |                  | 2,245               |                  | 2,245               |
|                    | <u>\$ 12,758</u> | <u>\$ 1,303,429</u> | <u>\$ 47,195</u> | <u>\$ 1,363,382</u> |

The ERS also had exposure to foreign currency risk though its investment in an international commingled equity fund.

**Derivatives and Other Similar Investments**

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

**Forward Foreign Currency Contracts** – The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation

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

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and total return swaps. The ERS may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

**Securities Lending**

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, U.S. equities and bonds are collateralized at 102% and international equities are collateralized at 105%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand.

The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 25 days and a weighted average maturity of 174 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2005, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were \$988,765,048 (fair value), and the collateral received for those securities on loan was \$1,017,104,074 (fair value).

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Private Purpose Trusts

The private purpose trusts had investments of \$2,010,000 in a mutual fund. The average maturity of the fund was not available.

**Note 4. Receivables**

Receivables at June 30, 2005 (expressed in thousands) consist of the following:

|   | Taxes             | Accounts         | Accrued Interest | Notes and Loans     | Allowance for Uncollectibles | Total Receivables   |
|---|-------------------|------------------|------------------|---------------------|------------------------------|---------------------|
| <b>Governmental Activities:</b>   |                   |                  |                  |                     |                              |                     |
| General   | \$ 250,592        | \$ 81,684        | \$               | \$ 485              | \$ (103,093)                 | \$ 229,668          |
| Intermodal Surface Transportation   | 12,744            |                  |                  | 1,000               | (402)                        | 13,342              |
| Other governmental  | 37,647            | 5,517            |                  |                     | (1,983)                      | 41,181              |
| Internal Service  |                   | 11,885           |                  | 390                 |                              | 12,275              |
| <b>Total - governmental activities</b>  | <b>\$ 300,983</b> | <b>\$ 99,086</b> | <b>\$</b>        | <b>\$ 1,875</b>     | <b>\$ (105,478)</b>          | <b>\$ 296,466</b>   |
| <b>Amounts not expected to be collected in the subsequent year and recorded as deferred revenue</b> |                   |                  |                  |                     |                              |                     |
| General   | \$ 5,027          | \$ 6,256         |                  |                     |                              |                     |
| Intermodal Surface Transportation   |                   | 22,068           |                  |                     |                              |                     |
| <b>Business-type activities:</b>  |                   |                  |                  |                     |                              |                     |
| State Lottery   | \$                | \$ 6,280         | \$               | \$                  | \$ (460)                     | \$ 7,820            |
| Convention Center   |                   | 672              | 206              |                     | (50)                         | 828                 |
| Employment Security   | 50,119            | 12,665           |                  |                     | (10,382)                     | 52,402              |
| <b>Total - business-type activities</b>   | <b>\$ 50,119</b>  | <b>\$ 21,617</b> | <b>\$ 206</b>    | <b>\$</b>           | <b>\$ (10,892)</b>           | <b>\$ 61,050</b>    |
| <b>Component Units</b>  | <b>\$</b>         | <b>\$ 93,598</b> | <b>\$ 32,922</b> | <b>\$ 2,232,850</b> | <b>\$ (55,413)</b>           | <b>\$ 2,303,957</b> |

**Component Units**

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

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**Note 5. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables, as of June 30, 2005, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

|  | Interfund<br>Receivable | Interfund<br>Payable |
|--|-------------------------|----------------------|
| <b>Governmental Funds</b>              |                         |                      |
| <b>Major Funds</b>                     |                         |                      |
| General Fund                           | \$                      | \$ 438               |
| Intermodal Surface Transportation Fund |                         | 3,202                |
| GARVEE                                 |                         | 924                  |
| <b>Other</b>                           |                         |                      |
| Bond Capital                           | 7,829                   |                      |
| RI Temporary Disability Insurance      |                         | 850                  |
| COPS                                   |                         | 596                  |
| Total Other                            | <u>7,829</u>            | <u>1,446</u>         |
| Total Governmental                     | <u>7,829</u>            | <u>6,010</u>         |
| <b>Proprietary Funds</b>               |                         |                      |
| <b>Enterprise</b>                      |                         |                      |
| RI Lottery                             |                         | 1,550                |
| Employment Security Trust Fund         |                         | 1,509                |
| Total Enterprise                       |                         | <u>3,059</u>         |
| <b>Internal Service</b>                |                         |                      |
| Assessed Fringe Benefits               |                         | 681                  |
| Central Utilities                      | 150                     |                      |
| Information Processing                 |                         | 1,640                |
| Central Postage                        |                         | 121                  |
| Centrex                                | 1,243                   |                      |
| Pastore Communications                 | 48                      |                      |
| Central Pharmacy                       | 820                     |                      |
| Central Laundry                        | 41                      |                      |
| Automotive Maintenance                 |                         | 48                   |
| Central Warehouse                      | 124                     |                      |
| Correctional Industries                | 476                     |                      |
| Health Insurance                       | 864                     |                      |
| Records Center                         |                         | 36                   |
| Total Internal Service                 | <u>3,766</u>            | <u>2,526</u>         |
| <b>Totals</b>                          | <u>\$ 11,595</u>        | <u>\$ 11,595</u>     |

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**Note 6. Capital Assets**

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

**Primary Government**

**Governmental Activities**

|  | Beginning<br>Balance | Increases         | Decreases       | Ending<br>Balance   |
|--|----------------------|-------------------|-----------------|---------------------|
| <b>Capital assets not being depreciated:</b>       |                      |                   |                 |                     |
| Land   | \$ 322,369           | \$ 4,145          | \$              | \$ 326,514          |
| Intangibles  | 85,564               | 5,425             |                 | 90,989              |
| Construction in progress                           | 82,810               | 51,156            | (88)            | 133,878             |
| <b>Total capital assets not being depreciated</b>  | <u>490,743</u>       | <u>60,726</u>     | <u>(88)</u>     | <u>551,381</u>      |
| <b>Capital assets being depreciated:</b>           |                      |                   |                 |                     |
| Land improvements                                  | 3,601                |                   |                 | 3,601               |
| Buildings  | 429,982              | 696               |                 | 430,678             |
| Building Improvements                              | 198,632              | 837               |                 | 199,469             |
| Furniture and equipment                            | 158,399              | 16,296            | (4,075)         | 170,620             |
| Intangibles  | 898                  | 298               |                 | 1,196               |
| Infrastructure                                     | 361,850              | 168,200           |                 | 530,050             |
| <b>Total capital assets being depreciated</b>      | <u>1,153,362</u>     | <u>186,327</u>    | <u>(4,075)</u>  | <u>1,335,614</u>    |
| <b>Less accumulated depreciation for:</b>          |                      |                   |                 |                     |
| Land Improvements                                  | 2,158                | 181               |                 | 2,339               |
| Buildings  | 138,043              | 8,296             |                 | 146,339             |
| Building Improvements                              | 108,936              | 8,647             |                 | 117,583             |
| Furniture and equipment                            | 120,355              | 14,635            | (3,901)         | 131,089             |
| Intangibles  | 205                  | 209               |                 | 414                 |
| Infrastructure                                     | 17,458               | 14,865            |                 | 32,323              |
| Total accumulated depreciation                     | <u>387,155</u>       | <u>46,833</u>     | <u>(3,901)</u>  | <u>430,087</u>      |
| <b>Total capital assets being depreciated, net</b> | <u>766,207</u>       | <u>139,494</u>    | <u>(174)</u>    | <u>805,527</u>      |
| <b>Governmental activities capital assets, net</b> | <u>\$ 1,256,950</u>  | <u>\$ 200,220</u> | <u>\$ (262)</u> | <u>\$ 1,456,908</u> |

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

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

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|  |    |               |
|--|----|---------------|
| General government                                   | \$ | 5,193         |
| Human services                                       |    | 9,743         |
| Education  |    | 2,902         |
| Public safety  |    | 8,734         |
| Natural resources                                    |    | 2,327         |
| Transportation                                       |    | 17,934        |
| Total depreciation expense - governmental activities | \$ | <u>46,833</u> |

**Business-Type Activities**

|  | Beginning<br>Balance | Increases         | Decreases          | Ending<br>Balance |
|--|----------------------|-------------------|--------------------|-------------------|
| Capital assets not being depreciated:        |                      |                   |                    |                   |
| Land   | \$ 38,032            | \$                | \$ (6,558)         | \$ 31,474         |
| Construction in progress                     | 1,189                | 2,641             | (3,524)            | 306               |
| Total capital assets not being depreciated   | <u>39,221</u>        | <u>2,641</u>      | <u>(10,082)</u>    | <u>31,780</u>     |
| Capital assets being depreciated:            |                      |                   |                    |                   |
| Buildings                                    | 229,813              | 54                | (81,386)           | 148,481           |
| Machinery and equipment                      | 24,722               | 3,793             | (20,319)           | 8,196             |
| Total capital assets being depreciated       | <u>254,535</u>       | <u>3,847</u>      | <u>(101,705)</u>   | <u>156,677</u>    |
| Less accumulated depreciation                | 94,113               | 8,766             | (39,296)           | 63,583            |
| Total capital assets being depreciated, net  | <u>160,422</u>       | <u>(4,919)</u>    | <u>(62,409)</u>    | <u>93,094</u>     |
| Business-type activities capital assets, net | <u>\$ 199,643</u>    | <u>\$ (2,278)</u> | <u>\$ (72,491)</u> | <u>\$ 124,874</u> |

**Discretely Presented Component Units**

|   | Beginning<br>Balance | Increases         | Decreases          | Ending<br>Balance   |
|---|----------------------|-------------------|--------------------|---------------------|
| Capital assets not being depreciated:       |                      |                   |                    |                     |
| Land  | \$ 86,479            | \$ 3,733          | \$ (10,314)        | \$ 79,898           |
| Construction in progress                    | 255,517              | 111,488           | (27,276)           | 339,727             |
| Total capital assets not being depreciated  | <u>341,996</u>       | <u>115,221</u>    | <u>(37,592)</u>    | <u>419,625</u>      |
| Capital assets being depreciated:           |                      |                   |                    |                     |
| Buildings                                   | 970,521              | 31,531            | (16,777)           | 985,275             |
| Land improvements                           | 105,325              | 29,325            | (1,125)            | 133,525             |
| Machinery and equipment                     | 237,099              | 24,017            | (14,537)           | 246,579             |
| Infrastructure                              | 295,386              | 14,529            |                    | 309,895             |
| Total capital assets being depreciated      | <u>1,608,311</u>     | <u>99,402</u>     | <u>(32,439)</u>    | <u>1,675,274</u>    |
| Less accumulated depreciation for:          |                      |                   |                    |                     |
| Buildings                                   | 348,317              | 35,092            | (19,911)           | 363,498             |
| Land improvements                           | 61,103               | 5,855             |                    | 66,958              |
| Machinery and equipment                     | 132,059              | 19,892            | (9,226)            | 142,725             |
| Infrastructure                              | 85,806               | 6,071             |                    | 91,877              |
| Total accumulated depreciation              | <u>627,285</u>       | <u>66,910</u>     | <u>(29,137)</u>    | <u>665,058</u>      |
| Total capital assets being depreciated, net | <u>981,026</u>       | <u>32,492</u>     | <u>(3,302)</u>     | <u>1,010,216</u>    |
| Total capital assets, net                   | <u>\$ 1,323,022</u>  | <u>\$ 147,713</u> | <u>\$ (40,894)</u> | <u>\$ 1,429,841</u> |

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**Note 7. Long-Term Obligations**

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

**A. Bonds Payable**

At June 30, 2005, future debt service requirements were as follows (expressed in thousands):

| Fiscal<br>Year<br>Ending<br>June 30 | Primary Government      |                     |                          |                   | Component Units     |                     |
|-------------------------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
|                                     | Governmental Activities |                     | Business Type Activities |                   | Principal           | Interest            |
|                                     | Principal               | Interest            | Principal                | Interest          |                     |                     |
| 2006                                | \$ 100,489              | \$ 97,251           | \$ 6,925                 | \$ 10,389         | \$ 243,911          | \$ 125,861          |
| 2007                                | 76,478                  | 93,737              | 7,250                    | 10,053            | 153,293             | 119,475             |
| 2008                                | 72,836                  | 88,978              | 7,585                    | 9,721             | 145,088             | 114,430             |
| 2009                                | 78,474                  | 82,536              | 7,865                    | 9,383             | 89,892              | 109,113             |
| 2010                                | 72,309                  | 78,524              | 8,240                    | 8,992             | 79,108              | 105,505             |
| 2011-2015                           | 417,095                 | 331,721             | 47,635                   | 36,882            | 437,762             | 473,277             |
| 2016-2020                           | 236,715                 | 246,221             | 58,195                   | 21,840            | 489,702             | 372,423             |
| 2021-2025                           | 184,310                 | 184,268             | 50,830                   | 7,192             | 407,311             | 257,416             |
| 2026-2030                           |                         | 187,896             | 8,530                    | 508               | 357,232             | 166,691             |
| 2031-2035                           | 168,260                 | 136,768             |                          |                   | 412,955             | 83,739              |
| 2036-2040                           |                         | 118,156             |                          |                   | 398,815             | 20,570              |
| 2041-2045                           | 371,700                 | 46,463              |                          |                   | 6,230               | 1,613               |
| 2046-2050                           |                         |                     |                          |                   | 2,865               | 74                  |
|                                     | <u>\$ 1,778,666</u>     | <u>\$ 1,680,309</u> | <u>\$ 202,855</u>        | <u>\$ 114,950</u> | <u>\$ 3,191,964</u> | <u>\$ 1,950,187</u> |

**Primary Government**

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

Included in the current interest bonds is \$22,665,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility.

This agreement has been extended through June 2006. The State is required to pay the bank

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at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

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

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (Bonds) that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended June 30, 2005, TSFC utilized \$6,850,000 of excess collections to early redeem an equal amount of outstanding bonds.

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

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

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made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of \$101,315,000. The Bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the Bonds to fixed rate bonds. The Bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the Bondholders for the year ended June 30, 2005 was \$1,768,700. The Bonds mature in varying installments beginning on May 15, 2004 through May 15, 2027. During May 2005, a portion of the bonds maturing between 2006 and 2027, in the amount of \$32,210,000, were called and retired during June 2005.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15<sup>th</sup> and November 15<sup>th</sup> through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$3,528,800. Total interest received by the RICCA from UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$1,696,400. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent). The initial purchase price is \$102,480,817, which consists of the original \$101,315,000 of principal plus accrued interest in the amount of \$1,165,817 through May 15, 2002.

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The termination date of the standby bond purchase agreement is the later of November 1, 2006 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2005 totaled \$166,200.

The Rhode Island Economic Development Corporation (RIEDC) issued \$216,805,000 of Grant Anticipation Revenue Bonds which 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. 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 is subject to annual appropriation by the General Assembly.

The Rhode Island Economic Development Corporation issued \$53,030,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Bonds. The bonds do not constitute a debt, liability, or obligation of the State or political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future pledged motor fuel taxes are subject to annual appropriation by the General Assembly.

At June 30, 2005 general obligation bonds authorized by the voters and unissued amounted to \$398,149,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

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

**Component Units**

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

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equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

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

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

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

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

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

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$26,041,000 at June 30, 2005 (See Note 21). The insured mortgages are guaranteed by the State.

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**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 2005 are as follows:

|   |                  |
|---|------------------|
| Component Units   |                  |
| Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024. | \$ 2,050         |
| R.I. Housing and Mortgage Finance Corporation bank notes, 2.30% to 5.46% interest, payable through 2006.  | 127,000          |
| R.I. Clean Water Finance Agency Bond Anticipation Note maturing on March 1, 2007 at an interest rate of 2.60%   | 7,719            |
| R.I. Resource Recovery Corporation notes due in installments through September 2008, 5 % interest.  | 2,000            |
| R.I. Industrial-Recreational Building Authority bank note, prime minus .5 % or LIBOR plus 1.25%, due 2010   | 3,000            |
|   | <u>141,769</u>   |
| Less: current payable   | <u>(128,213)</u> |
|   | <u>\$ 13,556</u> |

**C. Loans Payable**

**Component Units**

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$238,314,838.

**D. Obligations Under Capital Leases**

**Primary Government**

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

The State's obligation under capital leases at June 30, 2005 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, 2005.

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| Fiscal Year<br>Ending June 30                  | COPS       | Other    | Total      |
|--|------------|----------|------------|
| 2006   | \$ 19,539  | \$ 1,922 | \$ 21,461  |
| 2007   | 23,808     |          | 23,808     |
| 2008   | 23,807     |          | 23,807     |
| 2009   | 23,348     |          | 23,348     |
| 2010   | 23,259     |          | 23,259     |
| 2011 - 2015                                    | 94,242     |          | 94,242     |
| 2016 - 2020                                    | 74,304     |          | 74,304     |
| 2021 - 2025                                    | 50,182     |          | 50,182     |
| Total future minimum lease payments            | 332,489    | 1,922    | 334,411    |
| Amount representing interest                   | (101,729)  | (218)    | (101,947)  |
| Present value of future minimum lease payments | \$ 230,760 | \$ 1,704 | \$ 232,464 |

**Component Units**

In addition to capital leases with outside vendors, Rhode Island College (RIC) and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases include construction of facilities by the R.I. Refunding Bond Authority, a blended component unit. RIC and the University of Rhode Island (URI) have capital lease agreements for land and/or buildings with related parties (their respective foundations). URI has a capital lease obligation for the construction of a steam plant with the RI Economic Development Corporation (RIEDC) (a blended component unit). The Community College of Rhode Island (CCRI) has a capital lease for land and building.

Capital lease obligations of the RIEDC are for equipment purchases.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

| Fiscal Year<br>Ending June 30                  | URI       | RIC    | CCRI     | RIEDC    | RIPTCA   | NBC    |
|--|-----------|--------|----------|----------|----------|--------|
| 2006   | \$ 1,914  | \$ 64  | \$ 89    | \$ 1,087 | \$ 505   | \$ 238 |
| 2007   | 1,785     | 64     | 90       | 930      | 863      | 164    |
| 2008   | 1,763     | 64     | 89       | 837      | 976      | 112    |
| 2009   | 1,427     | 42     | 156      | 610      | 756      | 7      |
| 2010   | 1,424     |        | 156      | 715      |          |        |
| 2011-2015                                      | 8,639     |        | 781      | 1,038    |          |        |
| 2016-2020                                      | 6,304     |        | 782      | 0        |          |        |
| 2021-2025                                      |           |        | 624      |          |          |        |
| Total future minimum lease payments            | 21,256    | 234    | 2,767    | 5,017    | 3,100    | 521    |
| Amount representing interest                   | (5,746)   | (39)   | (946)    | (584)    | (308)    | (40)   |
| Present value of future minimum lease payments | \$ 15,510 | \$ 195 | \$ 1,821 | \$ 4,433 | \$ 2,791 | \$ 481 |

**E. Compensated Absences**

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at

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retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

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

**F. Other Long-Term Liabilities**

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

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**G. Changes in Long-Term Debt**

During the fiscal year ended June 30, 2005, the following changes (expressed in thousands) occurred in long-term debt:

**Primary Government**

|   | Balance<br>July 1 | Additions  | Reductions   | Balance<br>June 30 | Amounts<br>Due Within<br>One Year | Amounts<br>Due<br>Thereafter |
|---|-------------------|------------|--------------|--------------------|-----------------------------------|------------------------------|
| <b>Governmental activities</b>                        |                   |            |              |                    |                                   |                              |
| General obligation bonds payable:                     |                   |            |              |                    |                                   |                              |
| Current interest bonds                                | \$ 762,027        | \$ 204,105 | \$ (165,826) | \$ 800,306         | \$ 48,448                         | \$ 751,858                   |
| Capital appreciation bonds                            | 610               |            |              | 610                | 306                               | 304                          |
| Accrued interest on capital appreciation bonds        | 7,433             | 2,136      |              | 9,569              | 5,107                             | 4,462                        |
| Premium and deferred amount on refunding              | 25,908            | 9,718      | (2,479)      | 33,147             |                                   | 33,147                       |
|   | 795,978           | 215,959    | (168,305)    | 843,632            | 53,861                            | 789,771                      |
| RIEDC Grant Anticipation Bonds                        | 216,805           |            | (30,755)     | 186,050            | 32,290                            | 153,760                      |
| Premium   | 19,776            |            | (1,894)      | 17,885             |                                   | 17,885                       |
| RIEDC Rhode Island Motor Fuel Tax Revenue Bonds       | 47,405            |            | (5,150)      | 42,255             | 5,150                             | 37,105                       |
| Premium   | 85                |            | (5)          | 80                 |                                   | 80                           |
| Revenue bonds - RIRBA                                 | 84,730            |            | (10,115)     | 74,615             | 14,295                            | 60,320                       |
| Net premium/discount and deferred amount on refunding | 4,710             |            | (2,021)      | 2,689              |                                   | 2,689                        |
| Tobacco Settlement Asset-Backed Bonds                 | 681,680           |            | (6,850)      | 674,830            |                                   | 674,830                      |
| Net premium/discount                                  | (32,405)          |            | 2,896        | (29,509)           |                                   | (29,509)                     |
| Bonds payable   | 1,818,767         | 215,959    | (222,219)    | 1,812,507          | 105,596                           | 1,706,911                    |
| Certificates of Participation (COP)                   | 99,535            | 139,410    | (8,185)      | 230,760            | 10,005                            | 220,755                      |
| Premium   | 3,350             | 5,796      | (146)        | 5,650              |                                   | 5,650                        |
| Other capital leases                                  |                   |            | (1,646)      | 1,704              | 1,704                             |                              |
| Obligations under capital leases                      | 102,885           | 145,206    | (9,977)      | 238,114            | 11,709                            | 226,405                      |
| Compensated absences                                  | 60,716            | 56,367     | (51,435)     | 64,648             | 46,793                            | 17,855                       |
| Other long-term liabilities                           | 52,039            | 9,647      | (17,004)     | 43,681             | 2,311                             | 41,370                       |
|   | \$ 2,034,407      | \$ 425,179 | \$ (300,635) | \$ 2,158,950       | \$ 166,409                        | \$ 1,992,541                 |
| <b>Business type activities</b>                       |                   |            |              |                    |                                   |                              |
| Revenue bonds   | \$ 302,320        | \$         | \$ (99,465)  | \$ 202,855         | \$ 6,925                          | \$ 195,930                   |
| Add: bond premium                                     | 4,258             |            | (1,455)      | 2,803              |                                   | 2,803                        |
| Less: issuance discounts                              | 5,202             |            | (2,909)      | 2,293              |                                   | 2,293                        |
| Deferred amounts on refunding                         | 16,822            |            | (9,744)      | 7,078              |                                   | 7,078                        |
| Bonds payable   | 284,554           |            | (88,267)     | 196,287            | 6,925                             | 189,362                      |
| Other long-term liabilities                           | 153               |            | (153)        |                    |                                   |                              |
|   | \$ 284,707        | \$         | \$ (88,420)  | \$ 196,287         | \$ 6,925                          | \$ 189,362                   |

Certain beginning balances for deferred costs were restated to eliminate the netting of bond issue costs with the premiums. The beginning balance of other long-term liabilities was restated because of unrecorded long-term debt.

**H. Defeased Debt**

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2005, the following bonds outstanding (expressed in thousands) are considered defeased:

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|   | Amount     |
|---|------------|
| Primary government:   |            |
| General Obligation Bonds  |            |
| (includes \$9,532 of NBC)   | \$ 396,805 |
| Certificates of Participation   | 1,240      |
| R.I. Convention Center Authority  | 60,225     |
| Component Units:  |            |
| R.I. Clean Water Finance Agency   | 5,665      |
| R.I. Depositors Economic Protection Corporation (ceased operations during FY04) | 324,615    |
| R.I. Economic Development Corporation   | 67,245     |
| R.I. Turnpike and Bridge Authority  | 34,300     |

**Primary Government**

In March 2005, the State issued \$60,695,000 Consolidated Capital Development Loan of 2005, Refunding Series A & B, with interest rates ranging from 3.00% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1995B, 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$59,350,00. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 14 years by \$3,678,687 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,737,226.

In April 2005, the State issued \$56,315,000 Consolidated Capital Development Loan of 2005, Refunding Series D, with interest rates ranging from 2.50% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$55,510,00. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 14 years by \$3,820,979 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,300,801.

**Component Units**

During the fiscal year ended June 30, 2005, RIEDC, on behalf of the Airport Corporation, issued \$44,465,000 of revenue bonds with an average interest rate of 4.916% to advance refund \$42,165,000 of revenue bonds with an average interest rate of 6.065%. These bonds were advance refunded to reduce total debt service payments over the next 16 years by approximately \$3,040,000 and to obtain an economic gain of approximately \$223,000. The reacquisition price exceeded the carrying amount of the old debt by \$5,366,543. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, \$42,165,000 of refunded revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets as of June 30, 2005.

On June 29, 2005, NBC entered into a prepayment and escrow agreement with the State to effectuate the prepayment in full and the economic defeasance of their State Obligations. NBC deposited \$10,977,827 with an escrow trustee, who shall use the proceeds of the invested funds to pay the interest, premium, if any, and principal of the Bonds and the payment of the Tobacco Bond Payment Amounts.

**I. Conduit Debt**

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2005 was \$111,000,000, \$1,703,029,871 and \$630,222,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

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**Note 8. Net Assets**

**Government-Wide Unrestricted Net Assets**

|                                 | Governmental<br>Funds |  |
|---------------------------------|-----------------------|--|
| Deficit                         | \$ (1,470,118)        |  |
| General Revenue                 | 38,699                | Unrestricted balance   |
| Appropriations carried forward: |                       |  |
| General Revenues                | 13,489                | General revenues carried forward for original purpose                        |
| Restricted Revenues             | 34,303                | Restricted revenues carried forward for original purpose                     |
| Other                           | 7,424                 | Principally capital accounts carried forward for original purpose            |
| Special Revenue                 | 32,588                | ISTEA, Tobacco Settlement Trust, R.I. TDI Fund<br>RI Economic Policy Council |
| Capital Projects Fund           | 388,829               | Committed for capital projects   |
| Permanent Fund                  | 517                   | Permanent School   |
| Internal Service Funds          | 17,432                | Unrestricted balance of all Internal Service Funds                           |
| Unrestricted Net Assets         | <u>\$ (996,437)</u>   |  |

**Changes in General Fund Reserved Fund Balances**

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

|                                 | Reserved<br>Fund Balance<br>July 1 | Additions         | Reductions          | Reserved<br>Fund Balance<br>June 30 |
|---------------------------------|------------------------------------|-------------------|---------------------|-------------------------------------|
| State Budget Reserve Account    | \$ 84,268                          | \$ 60,591         | \$ (54,002)         | \$ 90,867                           |
| Appropriations carried forward  |                                    |                   |                     |                                     |
| General revenue                 | 10,146                             | 13,489            | (10,146)            | 13,489                              |
| Departmental restricted revenue | 28,977                             | 34,303            | (28,977)            | 34,303                              |
| Operating transfers in          | 6,422                              | 7,424             | (6,422)             | 7,424                               |
| Total                           | <u>\$ 131,843</u>                  | <u>\$ 115,807</u> | <u>\$ (101,547)</u> | <u>\$ 146,103</u>                   |

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

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

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**Note 9. Taxes**

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

|   | Governmental<br>Funds | Statement of<br>Activities |
|---|-----------------------|----------------------------|
| <b>General Fund</b>                           |                       |                            |
| <b>Personal Income Tax</b>                    | <b>\$ 979,082</b>     | <b>\$ 979,495</b>          |
| <b>General Business Taxes:</b>                |                       |                            |
| Business Corporation Tax                      | 115,916               | 115,932                    |
| Non-resident Contractor Tax                   | 111                   | 111                        |
| Gross Earnings Tax-Public Utilities           | 86,358                | 86,296                     |
| Income Tax-Financial Institutions             | (1,480)               | (1,478)                    |
| Tax on Insurance Companies                    | 53,333                | 53,324                     |
| Tax on Deposits-Banking Institutions          | 1,524                 | 1,524                      |
| Health Care Provider Assessment               | 10,921                | 10,921                     |
| Nursing Facilities Provider Assessments       | 35,906                | 35,892                     |
| Sub-total - General Business Taxes            | <u>302,589</u>        | <u>302,522</u>             |
| <b>Sales and Use Taxes:</b>                   |                       |                            |
| Sales and Use Tax                             | 836,355               | 836,183                    |
| Providence Place Sales Tax                    | 11,372                | 11,372                     |
| Motor Vehicle Tax                             | 44,252                | 44,252                     |
| Rental Vehicle Surcharge                      | 2,885                 | 2,882                      |
| Fuel Use Tax on Motor Carriers                | 1,961                 | 1,958                      |
| Cigarette Tax                                 | 134,432               | 134,433                    |
| Smokeless Tobacco Tax                         | 1,910                 | 1,917                      |
| Alcoholic Beverage Import Fees                | 10,501                | 10,501                     |
| Tax on Mfg. of Beers, Liquors, etc.           | 36                    | 36                         |
| Sub-total - Sales and Use Taxes               | <u>1,043,704</u>      | <u>1,043,534</u>           |
| <b>Other Taxes:</b>                           |                       |                            |
| Inheritance Tax                               | 32,981                | 33,007                     |
| Simulcast Wagering                            | 2,682                 | 2,682                      |
| Dog Racing - Pari-mutuel Betting              | 1,290                 | 1,290                      |
| Dog Racing - Tax on Breakage                  | 19                    | 19                         |
| Realty Transfer Tax                           | 14,405                | 14,405                     |
| Mobile Home Conveyance Tax                    | 18                    | 18                         |
| Sub-total - Other Taxes                       | <u>51,395</u>         | <u>51,421</u>              |
| Total - General Fund                          | <u>2,378,770</u>      | <u>2,378,972</u>           |
| <b>Intermodal Surface Transportation Fund</b> |                       |                            |
| Gasoline                                      | 142,696               | 142,696                    |
| Other Governmental Funds                      | 168,016               | 168,016                    |
| Total Taxes                                   | <u>\$ 2,687,482</u>   | <u>\$ 2,687,684</u>        |

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**Note 10. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2005 are presented below (expressed in thousands):

**Fund Financial Statements**

|                                   | Transfers  | Description  |
|-----------------------------------|------------|--|
| Governmental activities           |            |  |
| Major Funds                       |            |  |
| General Fund                      |            |  |
| Major Funds                       |            |  |
| Intermodal Surface Transportation | \$ 52,348  | Debt service and operating assistance                        |
| Nonmajor Funds                    |            |  |
| Bond Capital                      | 32,568     | Debt service and capital projects                            |
| RI Temporary Disability Insurance | 1,155      | Operating assistance   |
| Surplus Property                  | 4          |  |
| Business-Type Activities          |            |  |
| Lottery                           | 307,550    | Net income   |
| Employment Security               | 5,632      | Operating assistance   |
| ISTEA Fund                        |            |  |
| Bond Capital                      | 32,701     | Infrastructure   |
| GARVEE                            |            |  |
| Intermodal Surface Transportation | 51,322     | Debt Service   |
| Nonmajor Fund                     |            |  |
| Bond Capital                      |            |  |
| General Fund                      | 54,002     | Debt service and capital projects                            |
| Economic Policy Council           |            |  |
| General Fund                      | 336        | Operating assistance   |
| Total Governmental Activities     | 537,618    |  |
| Business-Type Activities          |            |  |
| Employment Security               |            |  |
| Assessed Fringe Benefits          | 1,106      | Reimbursement for State employee's unemployment compensation |
| Convention Center                 |            |  |
| General Fund                      | 18,083     | Debt service   |
| Total operating transfers         | \$ 556,806 |  |

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,066,000 for the fiscal year ended June 30, 2005.

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, 2005:

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| Fiscal Year<br>Ending June 30 |           |
|-------------------------------|-----------|
| 2006                          | 11,521    |
| 2007                          | 8,504     |
| 2008                          | 6,827     |
| 2009                          | 6,475     |
| 2010                          | 6,204     |
| 2011 - 2015                   | 19,490    |
| 2016 - 2020                   | 7,613     |
| Total                         | \$ 66,634 |

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

**Note 12. Commitments**

**Primary Government**

The primary government is committed at June 30, 2005 under various contractual obligations for transportation construction and other capital projects, which will be principally financed with bond proceeds and federal grants. The primary government is also committed at June 30, 2005 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

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

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

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

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**Component Units**

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$4,500,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$127,310,000 at June 30, 2005.

A portion of the Rhode Island Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2005. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$8,151,000.

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

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. In addition, the RIRRC began construction of the Phase I and Phase II/III caps. In 2005, RIRRC began landfilling in Phase V and further revised its estimates relating to capping, maintenance and leachate flow costs. The net effect of the changes in assumptions on the provision for landfill closure and postclosure care costs was a decrease in operating income of approximately \$4,600,000 in 2005. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$89,353,000 at June 30, 2005.

The liability for closure and postclosure care costs at June 30, 2005 of \$45,958,380 is recorded in the accompanying statements of net assets, as noted below, with \$43,395,335

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remaining to be recognized at June 30, 2005. The detail of the recorded liability (expressed in thousands) is listed below.

|                   | 2005             |
|-------------------|------------------|
| Phase V           | \$ 5,381         |
| Phase IV          | 14,919           |
| Phases II and III | 5,828            |
| Phase I           | 19,830           |
|                   | <u>\$ 45,958</u> |

Based on the estimates of RIRRC engineers, approximately 95% and 11% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2006 for Phase IV and fiscal 2012 for Phase V.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets on the accompanying statements of net assets is \$24,079,387 at June 30, 2005, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, and IV. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$36,739,000 under various loan programs at June 30, 2005.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2005 remaining commitments on these contracts approximated \$1,154,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$12,919,072 at June 30, 2005.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as its share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments. As of June 30, 2005, the amount outstanding is \$736,637, payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

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

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The R.I. Children's Crusade has committed \$2,451,440 toward scholarships for tuition during the 2005/2006 school year. This represents approximately 1,100 students for an average award of approximately \$2,230 per student. As of June 30, 2005, the estimated value of the potential future scholarship costs through the year 2018 is estimated to be between \$3,800,000 and \$15,700,000.

**Note 13. Contingencies**

**Primary Government**

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

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

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

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

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

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In April 2005 twenty 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 calculation of amounts due under the agreement. These manufacturers assert that the calculations of the April 2005 payments failed to recognize a non-participating manufactures adjustment. Some of the SPM sought to arbitrate the non-participating manufactures' adjustment rather than follow the procedure outlined in the MSA which required a significant factors determination proceeding before an NPM adjustment could be applied.

The non-participating manufacturer (NPM) adjustment would permit the Participating Manufacturers (PM) to reduce their MSA payments if their market share loss exceeds 2% of the original participating manufacturers' 1997 market share, and if the MSA was a significant factor for the PMs' market share loss, and if the PMs prevailed in proving lack of diligent enforcement of the MSA and the escrow statutes.

For 2003, the Independent Auditor determined that the PMs' market share loss exceeded 2% of the original participating manufacturers' 1997 market share. Rhode Island along with the other Settling States and the PMs have begun a Significant Factors Determination (SFD) proceeding to determine whether or not the PMs have lost market share due to the MSA. Although no date is set for a final determination for the SFD proceeding, Rhode Island anticipates a SFD determination in 2006.

In addition, two NPMs have filed for bankruptcy protection and a PM threatened to seek bankruptcy protection. In December 2005, the Illinois Supreme court reversed a \$10.1 billion verdict against Phillip Morris USA, which had caused concern in the market due to the threat of bankruptcy by Phillip Morris. A bankruptcy could slow the flow of MSA payments which secure the TSFC's outstanding bonds. A significant participant in the MSA, Phillip Morris is responsible for over 50% of the payments under the 1998 MSA. While disposing of this litigation cures some of the bankruptcy event risks viewed by the market, there are still cases pending which challenge the validity of the MSA itself.

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

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**Federal Grants**

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

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2005 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$272,975,263 and \$66,404,274 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,800,000 of the debt on the related economic development revenue bonds in fiscal year 2006.

**Component Units**

**R.I. Student Loan Authority**

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

Under an agreement with a provider, the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's

operating revenues, totaling \$5,828,948, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2005, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to \$500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual's account established for the benefit of income-qualifying individuals. .

During 2005, the Board of Directors authorized the transfer of \$4,458,167 to supplement amounts available for need-based scholarships under the State's grant program.

**R.I. Public Transit Authority**

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2005.

**R.I. Children's Crusade for Higher Education**

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 3.75% at June 30, 2005. There was an outstanding balance of \$125,000 as of June 30, 2005. Total interest expense for the fiscal year ended June 30, 2005 was \$2,490.



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**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$12,710,225 during the year ended June 30, 2005.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2005 was \$4,667,483. At January 1, 2005, the most recent valuation date, the total actuarial accrued liability was \$55,908,000 and the actuarial value of assets was \$31,085,548. The net pension obligation as of June 30, 2005 is \$1,833,410.

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

**Note 15. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$5.6 million in FY 2005. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2005, the State contributed 1.87% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2005 were \$9,061,813 net of retirees' contributions for the 5,486 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$977,879 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,195 for each of the 818 retirees covered by the plans).

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

**Note 16. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to

Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

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

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

**Note 17. Restatement of Net Assets**

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

|                         | Beginning<br>Net Assets | Changes            | Beginning<br>Net Assets<br>as Restated |
|-------------------------|-------------------------|--------------------|--|
| Entity-wide             |                         |                    |  |
| Governmental Activities | \$ (4,563)              | \$ (11,393)        | \$ (15,956)                            |
|                         | <u>\$ (4,563)</u>       | <u>\$ (11,393)</u> | <u>\$ (15,956)</u>                     |
| Component Units         |                         |                    |  |
| RITBA                   | \$ 65,114               | \$ 173             | \$ 65,287                              |
| RIPTA                   | 87,600                  | 893                | 88,493                                 |
| RICCHE                  | (2,382)                 | 10,500             | 8,118                                  |
| Other                   | 1,506,326               |                    | 1,506,326                              |
|                         | <u>\$ 1,656,658</u>     | <u>\$ 11,566</u>   | <u>\$ 1,668,224</u>                    |
|                         |                         |                    | Beginning                              |
|                         | Beginning               |                    | Fund Balance                           |
| Governmental Funds      | \$ 709,595              | \$ (3)             | \$ 709,592                             |
|                         | <u>\$ 709,595</u>       | <u>\$ (3)</u>      | <u>\$ 709,592</u>                      |

The State recorded additional long-term liabilities. RICCHE reduced the long-term estimated scholarship costs, which has been determined not to be a legal obligation of RICCHE. RITBA and RIPTA made corrections in accounting transactions.

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**Note 18. Condensed Financial Statement Information**

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

|   | RIHWF        | RIILA      | RIIBA     | RIEDC      | RIUSTFR  | NBC       |
|---|--------------|------------|-----------|------------|----------|-----------|
| Other assets                                    | \$ 1,844,288 | \$ 900,739 | \$ 40,280 | \$ 279,843 | \$ 2,660 | \$ 64,351 |
| Capital assets - nondepreciable                 |              |            | 7,982     | 88,652     |          | 275,933   |
| Capital assets - depreciable (net)              |              |            | 59,417    | 242,639    | 57       | 207,493   |
| Due from primary government                     |              |            |           |            |          |           |
| Long term debt                                  | 1,361,202    | 803,367    | 31,766    | 321,380    |          | 293,217   |
| Other liabilities                               | 221,453      | 31,725     | 3,484     | 13,166     | 691      | 15,634    |
| Due to primary government                       |              |            |           | 18,307     |          |           |
| Net assets:                                     |              |            |           |            |          |           |
| Invested in capital assets, net of related debt | 20,132       |            | 35,613    | 136,410    | 57       | 190,210   |
| Restricted                                      |              |            |           |            |          |           |
| Debt service                                    | 164,304      | 63,462     | 8,760     |            |          |           |
| Other   |              |            |           | 90,424     | 535      | 49        |
| Other nonexpendable                             |              |            |           |            |          |           |
| Unrestricted                                    | 77,175       | 2,185      | 20,036    | 29,647     | 1,434    | 48,667    |
| Operating expenses                              | 77,523       | 39,507     | 6,113     | 66,317     | 4,172    | 34,798    |
| Depreciation, depletion, and amortization       | 4,476        | 252        | 1,572     | 15,414     | 18       | 6,397     |
| Program revenue                                 |              |            |           |            |          |           |
| Charges for services                            | 61,357       | 40,854     | 12,293    | 54,720     | 4,602    | 53,778    |
| Operating grants and contributions              |              |            |           | 802        |          | 36        |
| Capital grants and contributions                |              |            |           | 9,022      |          | 2,942     |
| Net program (expense) revenue                   | (20,642)     | 1,095      | 4,608     | (17,187)   | 412      | 15,550    |
| Interest and investment earnings                | 28,954       | 1,830      | 2,514     | 5,125      | 25       | 914       |
| Miscellaneous                                   |              | (2,333)    |           | 17,676     |          | (6)       |
| Payments from primary government                |              |            |           | 9,180      |          |           |
| Change in net assets                            | 8,312        | 592        | 7,122     | 14,794     | 437      | 16,466    |
| Beginning net assets                            | 253,299      | 65,055     | 65,287    | 241,687    | 1,589    | 222,450   |
| Ending net assets                               | 261,611      | 65,647     | 72,409    | 256,481    | 2,026    | 238,928   |

|   | RIHEBC    | RIIRC      | RIHEAA    | RIPTA     | RIIFC    |
|---|-----------|------------|-----------|-----------|----------|
| Other assets                                    | \$ 11,894 | \$ 101,728 | \$ 27,892 | \$ 11,883 | \$ 1,196 |
| Capital assets - nondepreciable                 |           | 8,078      | 194       | 2,879     |          |
| Capital assets - depreciable (net)              | 88        | 68,287     | 1,184     | 86,936    |          |
| Due from primary government                     |           |            |           | 2,323     |          |
| Long term debt                                  |           | 19,612     | 350       |           |          |
| Other liabilities                               |           | 77,507     | 4,608     | 10,193    | 829      |
| Due to primary government                       |           |            |           | 8,263     |          |
| Net assets:                                     |           |            |           |           |          |
| Invested in capital assets, net of related debt | 88        | 81,068     | 1,377     | 89,815    |          |
| Restricted                                      |           |            |           |           |          |
| Debt service                                    |           | 1,707      |           |           |          |
| Other   |           |            | 17,972    |           |          |
| Other nonexpendable                             |           |            |           |           |          |
| Unrestricted                                    | 11,864    | (1,801)    | 4,983     | (4,470)   | 367      |
| Operating expenses                              | 1,189     | 47,655     | 23,617    | 73,144    | (31)     |
| Depreciation, depletion, and amortization       | 31        | 10,653     | 251       | 9,937     |          |
| Program revenue                                 |           |            |           |           |          |
| Charges for services                            | 1,800     | 65,048     | 15,455    | 27,664    | 137      |
| Operating grants and contributions              |           |            |           | 12,609    |          |
| Capital grants and contributions                |           |            |           | 6,242     |          |
| Net program (expense) revenue                   | 580       | 6,740      | (6,413)   | (36,566)  | 168      |
| Interest and investment earnings                | 169       | 3,472      | 610       | 66        | 11       |
| Miscellaneous                                   |           | (6,011)    | (2,681)   | 3,133     | (250)    |
| Payments from primary government                |           |            |           | 9,957     | 30,219   |
| Change in net assets                            | 749       | 4,201      | (527)     | (3,148)   | (71)     |
| Beginning net assets                            | 11,203    | 75,773     | 24,839    | 88,493    | 438      |
| Ending net assets                               | 11,952    | 80,974     | 24,312    | 85,345    | 367      |

Exhibit A-53

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2005**

|   | RICWFA     | RIIBA    | RIWBC     | RIPTCA   | RIICHE   |
|---|------------|----------|-----------|----------|----------|
| Other assets                                    | \$ 827,848 | \$ 4,222 | \$ 13,198 | \$ 1,338 | \$ 9,599 |
| Capital assets - nondepreciable                 |            | 181      |           | 821      |          |
| Capital assets - depreciable (net)              | 50         | 396      | 4         | 5,156    | 51       |
| Due from primary government                     |            |          |           |          |          |
| Long term debt                                  | 525,161    | 3,000    | 14,232    | 2,979    |          |
| Other liabilities                               | 10,875     | 60       | 904       | 1,513    | 3,566    |
| Due to primary government                       |            |          |           |          |          |
| Net assets:                                     |            |          |           |          |          |
| Invested in capital assets, net of related debt | 50         | 577      |           | 2,480    | 51       |
| Restricted                                      |            |          |           |          |          |
| Debt service                                    | 279,098    |          |           |          |          |
| Other   |            |          | (2,301)   |          | 616      |
| Other nonexpendable                             |            |          |           |          |          |
| Unrestricted                                    | 11,714     | 1,162    | 387       | 341      | 5,417    |
| Operating expenses                              | 23,331     | 403      | 622       | 3,553    | 9,428    |
| Depreciation, depletion, and amortization       | 272        | 36       | 107       | 736      | 32       |
| Program revenue                                 |            |          |           |          |          |
| Charges for services                            | 27,098     | 256      | 1,483     | 2,240    | 5,766    |
| Operating grants and contributions              | 23,985     |          | (1,225)   |          |          |
| Capital grants and contributions                |            |          |           |          |          |
| Net program (expense) revenue                   | 27,480     | (183)    | (491)     | (2,049)  | (3,694)  |
| Interest and investment earnings                |            | 74       | 169       | 67       |          |
| Miscellaneous                                   |            |          |           |          | 95       |
| Payments from primary government                |            |          |           |          | 3,189    |
| Change in net assets                            | 27,480     | (109)    | (322)     | 1,424    | (2,034)  |
| Beginning net assets                            | 264,282    | 1,848    | (1,812)   | 1,397    | 8,118    |
| Ending net assets                               | 291,762    | 1,739    | (1,934)   | 2,821    | 6,084    |

|   | URI        | RIC       | CCRI      | CPSD     | Totals       |
|---|------------|-----------|-----------|----------|--------------|
| Other assets                                    | \$ 248,519 | \$ 36,981 | \$ 14,143 | \$ 5,981 | \$ 4,448,169 |
| Capital assets - nondepreciable                 | 15,700     | 8,833     | 12,362    |          | 419,625      |
| Capital assets - depreciable (net)              | 248,390    | 48,927    | 37,140    | 3,801    | 1,010,216    |
| Due from primary government                     |            |           |           |          | 2,323        |
| Long term debt                                  | 200,398    | 20,105    | 11,044    | 2,197    | 3,610,040    |
| Other liabilities                               | 55,694     | 17,058    | 6,789     | 5,723    | 481,882      |
| Due to primary government                       |            |           | 1,049     |          | 27,639       |
| Net assets:                                     |            |           |           |          |              |
| Invested in capital assets, net of related debt | 147,543    | 42,960    | 43,827    | 3,272    | 795,530      |
| Restricted                                      |            |           |           |          |              |
| Debt service                                    |            |           |           |          | 518,231      |
| Other   | 34,669     | 7,586     | 5,508     | 135      | 155,203      |
| Other nonexpendable                             | 58,142     | 8,536     |           |          | 66,678       |
| Unrestricted                                    | 16,163     | (1,804)   | (4,552)   | (1,545)  | 225,330      |
| Operating expenses                              | 334,165    | 102,735   | 86,746    | 48,548   | 983,536      |
| Depreciation, depletion, and amortization       | 15,515     | 4,931     | 2,394     | 210      | 73,234       |
| Program revenue                                 |            |           |           |          |              |
| Charges for services                            | 248,514    | 58,112    | 44,034    | 10,197   | 736,388      |
| Operating grants and contributions              |            | 1,704     | 1,185     |          | 39,095       |
| Capital grants and contributions                | 9,415      | 3,194     | 7,424     |          | 38,239       |
| Net program (expense) revenue                   | (91,751)   | (43,656)  | (36,497)  | (38,561) | (243,047)    |
| Interest and investment earnings                | 1,632      | 1,283     | 176       | 17       | 47,108       |
| Miscellaneous                                   | 18,105     | 1,016     | 112       | 153      | 29,224       |
| Payments from primary government                | 81,841     | 43,862    | 41,816    | 37,804   | 259,463      |
| Change in net assets                            | 9,827      | 2,535     | 5,507     | (587)    | 92,748       |
| Beginning net assets                            | 246,690    | 54,753    | 39,176    | 2,449    | 1,688,224    |
| Ending net assets                               | 256,517    | 57,288    | 44,783    | 1,862    | 1,760,972    |

**State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2005**

Significant transactions between primary government and component units

|  | Revenue             |  | Description                                     |
|--|---------------------|--|---|
|  | (Expenses)          |  |   |
| <b>Governmental activities</b>             |                     |  |   |
| <b>General Fund</b>                        |                     |  |   |
| R.I. Higher Education Assistance Authority | \$ (9,857)          |  | Operating assistance                            |
| R.I. Economic Development Corporation      | (8,782)             |  | Operating assistance                            |
| RI Student Loan Authority                  | 5,000               |  | Surplus   |
| University of Rhode Island                 | (72,492)            |  | Educational assistance                          |
| Rhode Island College                       | (43,892)            |  | Educational assistance                          |
| Community College of Rhode Island          | (36,349)            |  | Educational assistance                          |
| Central Falls School District              | (37,804)            |  | Educational assistance                          |
| <b>ISTEA Fund</b>                          |                     |  |   |
| R.I. Public Transit Authority              | (30,219)            |  | Operating assistance                            |
| <b>Capital Projects</b>                    |                     |  |   |
| University of Rhode Island                 | (9,349)             |  | Construction, improvement or purchase of assets |
| Community College of Rhode Island          | (5,467)             |  | Construction, improvement or purchase of assets |
| <b>Total Governmental Activities</b>       | <b>\$ (249,291)</b> |  |   |

**Note 19. Risk Management**

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

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

The State also has a contract with an insurance company to provide health care benefits to employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims of \$15,161,000 at June 30, 2005 was calculated by a human resources consulting firm 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 |
|------------------------------|---------------------|---------------------------------------|----------------|----------------------|
| <b>Health Insurance Fund</b> |                     |                                       |                |                      |
| Liability for unpaid claims  | \$                  | \$ 97,521                             | \$ 81,754      | \$ 15,767            |

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

**State of Rhode Island and Providence Plantations  
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June 30, 2005**

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

**Note 20. Special Items**

**Primary Government**

In April 2005, The Rhode Island Convention Center Authority (RICCA) sold the land and building known as the Westin Hotel to a private third party for the sale price of \$95,500,000. As a result of the sale RICCA realized a gain in the amount of \$11,947,952, which consists of a loss on defeasance of bonds (\$16,205,277), income from discontinued operations \$4,531,953, and a gain on disposal of discontinued operations \$23,621,276.

**Note 21. Related Party Transactions**

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) and the Rhode Island Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2005 were as follows:

|   |               |
|---|---------------|
| Guaranteed loans outstanding at June 30, 2005 | \$469,117,000 |
| Loans guaranteed during the year              | 199,680,000   |
| Guarantee claims paid during the year         | 10,686,000    |

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the

**State of Rhode Island and Providence Plantations**  
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**June 30, 2005**

State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been received, nor have any payments for advances totaling \$31,940,146 made during the years ended June 30, 1998 through 2005 been received.

**Note 22. Subsequent Events**

**Primary Government – Governmental Activities**

In July 2005, the General Assembly abolished the State Lottery Commission that oversaw the operations of the State Lottery, a blended component unit, and established the State Lottery as a division of the Department of Administration.

Subsequent to June 30, 2005 the Director of State Lotteries entered 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, provided that the facilities invest \$150.0 million in structural and operational upgrades and expansions within the next three years. These master contracts freeze the share of video lottery NTI that is allocated to each facility at a fixed percent.

In November 2005, the state issued \$93,385,000 of general obligation bonds with interest rates ranging from 3.00% to 5.00% with maturity dates of November 2006 through November 2025.

In July 2005, the Rhode Island House and Senate gave the RI Convention Center Authority (RICCA) approval to issue bonds to finance the acquisition of the Dunkin' Donuts Center. The legislation authorizes RICCA to issue up to \$92,500,000 in revenue bonds to finance the acquisition from the City of Providence of the real property and improvements constituting the Dunkin' Donuts Center, the renovation, equipping, improvement and redevelopment of the facility, and the costs of issuing and insuring the bonds.

In December 2005, RICCA issued \$33,000,000 in revenue bonds to finance the above acquisition.

In August 2005, RICCA issued 2005 Series A Revenue Refunding Bonds in an aggregate principal amount of \$34,610,000 for the purpose of refunding \$35,395,000 of RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the cost of issuance. The 2005 Series A Bonds will mature between 2006 and 2023 and bear interest at 3.5% to 5%. This advance refunding meets the qualifications of in-substance defeasance due to the fact, that among other things, RICCA purchased U.S. Treasury Securities and the refunding results in a net present value savings of \$1,597,800.

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

In November 2005, Employees' Retirement System obtained title to commercial real estate located in Providence, Rhode Island as a result of bankruptcy foreclosure proceedings in the U.S. Bankruptcy Court. The Employees' Retirement System held a first lien on the commercial real estate owned by an obligor of a mortgage loan receivable held as a plan specific investment. The mortgage loan receivable is guaranteed by the Rhode Island Economic Development Corporation (RIEDC) to the extent of \$3 million. The Employees' Retirement System has requested payment of a guarantee by RIEDC. In January 2006, the Employees' Retirement System leased the premises to a corporation pursuant to a 3-year operating lease.

The Rhode Island Economic Development Corporation (RIEDC) plans to issue, in March 2006, \$184,620,000 of Grant Anticipation Revenue Bonds which 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. These bonds have interest rates between 4.000% and 5.000% and mature June 2007 through June 2018.

The RIEDC plans to issue, in March 2006, \$42,815,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. These bonds have interest rates between 3.500% and 5.000% and mature June 2007 through June 2026.

**Component Units**

Subsequent to June 2005, The Rhode Island Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$46,735,000.

Subsequent to June 2005 the Narragansett Bay Commission (NBC) issued \$45,000,000 in Wastewater System Revenue Bonds 2005 Series A. The 30-year revenue bond is structured as interest only for the first 20 years with principal payments commencing in 2026. The bonds will be used to finance NBC's construction in progress.

Subsequent to June 2005 the Rhode Island Resource Recovery Corporation (RIRRC) entered into a sales agreement to sell its existing Plainfield Pike location. The sales agreement is contingent upon the purchaser obtaining all the necessary permits for his intended use of the property.

In July 2005, RIRRC acquired land adjacent to its existing Shun Pike location for a purchase price of \$4,000,000. RIRRC issued \$2,500,000 of promissory notes in conjunction with the land acquisition.

Subsequent to June 30, 2005, the R.I. Health and Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have

**State of Rhode Island and Providence Plantations**  
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**June 30, 2005**

issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

- Subsequent to June 30, 2005, the R.I. Health and Educational Building Corporation issued
- \$13,840,000 in URI Dining Facility Bonds 2005 Series C. The 2005 Series C Bonds will mature between 2007 and 2036 and bear interest at 3% to 4.625%.
  - \$19,625,000 in Auxiliary Enterprise Refunding Bonds 2005 Series D (URI). The 2005 Series D Bonds will mature between 2008 and 2030 and bear interest at 3.5% to 4.5%.
  - \$3,530,000 in Auxiliary Enterprise Refunding Bonds 2005 Series E (RIC). The 2005 Series E Bonds will mature between 2007 and 2031 and bear interest at 3.5% to 4.5%.
  - \$3,245,000 in Tyler Hall Renovations Bonds 2005 Series F (URI). The 2005 Series F Bonds will mature between 2007 and 2026 and bear interest at 3.25% to 4.5%.
  - \$44,805,000 in Education and General Refunding Bonds 2005 Series G (URI). The 2005 Series G Bonds will mature between 2008 and 2031 and bear interest at 4% to 5%.

- Subsequent to June 30, 2005, the R. I. Housing and Mortgage Finance Corporation issued
- \$43,135,000 in Homeownership Opportunity Bonds Series 50-A. The 2005 Series 50-A Bonds will mature between 2006 and 2035 and bear interest at 2.6% to 4.65%.
  - \$38,365,000 in Homeownership Opportunity Bonds Series 50-B. The 2005 Series 50-B Bonds will mature in 2036 and bear interest rate of 4.6%.
  - \$32,570,000 in Homeownership Opportunity Note Series 50-C. The 2005 Series 50-C Notes will mature in 2008 and bear interest rate of 4.0%.
  - \$47,165,000 in Homeownership Opportunity Bonds Series 51-A. The 2005 Series 51-A Bonds will mature between 2007 and 2033 and bear interest at 3.2% to 4.85%.
  - \$7,605,000 in Homeownership Opportunity Bonds Series 51-B. The 2005 Series 51-B Bonds mature between 2036 and 2037 and bear interest at 4.875% to 5.0%.
  - \$3,765,000 in Homeownership Opportunity Note Series 51-C. The 2005 Series 51-C Notes will mature in 2009 and bear interest rate of 4.5%.
  - \$27,120,000 in Homeownership Opportunity Note Series 51-D. The 2005 Series 51-D Notes will mature in 2009 and bear interest rate of 4.5%.
  - \$21,180,000 in Housing Bonds Series A-1A. The 2005 Series A-1A Bonds will mature between 2007 and 2036 and bear interest at 3.1% to 4.875%.
  - \$5,235,000 in Housing Bonds Series A-1B. The 2005 Series A-1B Bonds will mature between 2013 and 2036 and bear interest at 4.9% to 5%.
  - \$7,845,000 in Housing Bonds Series A-2T. The 2005 Series A-2T Bonds will mature between 2016 and 2036 and bear interest at 5.14% to 5.76%.

Subsequent to June 2005 the Rhode Island Clean Water Financing Agency (RICWFA) granted Narragansett Bay Commission (NBC), another component unit, a \$30,000,000 Leveraged Loan. NBC will repay the loan over 20 years at interest rates of 1.110% to 1.565%.

Subsequent to June 2005 a borrower defaulted on loan issued by the R. I. Industrial Facilities Corporation and secured by mortgage insurance issued by the R.I. Industrial-Recreational Building Authority (RIIRBA), another component unit. RIIRBA paid \$3,000,000 plus interest to settle the default.

**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, 2005**  
**(Expressed in Thousands)**

|   | Original<br>Budget | Final<br>Budget  | Actual           | Variance         |
|---|--------------------|------------------|------------------|------------------|
| <b>Revenues:</b>                            |                    |                  |                  |                  |
| <b>General Revenues:</b>                    |                    |                  |                  |                  |
| Personal Income Tax                         | \$ 926,275         | \$ 980,600       | \$ 979,082       | \$ (1,518)       |
| General Business Taxes:                     |                    |                  |                  |                  |
| Business Corporations                       | 91,331             | 112,000          | 116,026          | 4,026            |
| Franchise                                   |                    |                  |                  |                  |
| Public Utilities Gross Earnings             | 86,500             | 89,000           | 86,358           | (2,642)          |
| Financial Institutions                      | (3,000)            | (1,100)          | (1,480)          | (380)            |
| Insurance Companies                         | 41,000             | 51,700           | 53,333           | 1,633            |
| Bank Deposits                               | 1,010              | 1,600            | 1,524            | (76)             |
| Health Care Provider Assessment             | 43,800             | 48,000           | 46,827           | (1,173)          |
| Sales and Use Taxes:                        |                    |                  |                  |                  |
| Sales and Use                               | 858,600            | 849,100          | 847,727          | (1,373)          |
| Motor Vehicle                               | 47,100             | 46,500           | 47,137           | 637              |
| Motor Fuel                                  | 1,092              | 1,000            | 1,961            | 961              |
| Cigarettes                                  | 143,800            | 136,700          | 136,342          | (358)            |
| Alcohol                                     | 10,500             | 11,000           | 10,537           | (463)            |
| Controlled Substances                       |                    |                  |                  |                  |
| Other Taxes:                                |                    |                  |                  |                  |
| Inheritance and Gift                        | 25,000             | 31,700           | 32,981           | 1,281            |
| Racing and Athletics                        | 4,610              | 4,200            | 3,991            | (209)            |
| Realty Transfer Tax                         | 11,000             | 14,500           | 14,423           | (77)             |
| <b>Total Taxes</b>                          | <b>2,288,618</b>   | <b>2,376,500</b> | <b>2,376,769</b> | <b>269</b>       |
| Departmental Revenue                        | 303,475            | 294,686          | 267,953          | (26,733)         |
| <b>Total Taxes and Departmental Revenue</b> | <b>2,592,093</b>   | <b>2,671,186</b> | <b>2,644,722</b> | <b>(26,464)</b>  |
| <b>Other Sources</b>                        |                    |                  |                  |                  |
| Gas Tax Transfer                            | 9,560              | 9,400            | 9,023            | (377)            |
| Other Miscellaneous                         | 19,173             | 26,950           | 28,197           | 1,247            |
| Lottery                                     | 322,397            | 310,000          | 307,550          | (2,450)          |
| Unclaimed Property                          | 11,150             | 15,797           | 15,618           | (179)            |
| <b>Total Other Sources</b>                  | <b>362,280</b>     | <b>362,147</b>   | <b>360,388</b>   | <b>(1,759)</b>   |
| <b>Total General Revenues</b>               | <b>2,954,373</b>   | <b>3,033,333</b> | <b>3,005,110</b> | <b>(28,223)</b>  |
| Federal Revenues                            | 1,646,382          | 1,719,761        | 1,655,563        | (64,198)         |
| Restricted Revenues                         | 109,645            | 116,198          | 105,367          | (10,831)         |
| Other Revenues                              | 114,754            | 104,786          | 95,180           | (9,606)          |
| <b>Total Revenues</b>                       | <b>4,825,154</b>   | <b>4,974,078</b> | <b>4,861,220</b> | <b>(112,858)</b> |
| <b>Expenditures:</b>                        |                    |                  |                  |                  |
| <b>Department of Administration</b>         |                    |                  |                  |                  |
| Central Management                          |                    |                  |                  |                  |
| General Revenue Total                       | 3,820              | 5,462            | 5,606            | (144)            |
| Federal Funds Total                         | 281                | 324              | 256              | 68               |
| Restricted Receipts                         |                    | 28               | 7                | 21               |
| ** Total-Central Management                 | 4,101              | 5,814            | 5,869            | (55)             |
| <b>Accounts &amp; Control</b>               |                    |                  |                  |                  |
| General Revenue                             | 4,005              | 4,029            | 3,889            | 140              |
| <b>Total-Accounts &amp; Control</b>         | <b>4,005</b>       | <b>4,029</b>     | <b>3,889</b>     | <b>140</b>       |

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|                                   | Original<br>Budget | Final<br>Budget | Actual | Variance |
|-----------------------------------|--------------------|-----------------|--------|----------|
| <b>Budgeting</b>                  |                    |                 |        |          |
| General Revenue Total             | 2,367              | 2,426           | 2,208  | 218      |
| Total-Budgeting                   | 2,367              | 2,426           | 2,208  | 218      |
| <b>Municipal Affairs</b>          |                    |                 |        |          |
| General Revenue Total             | 1,188              | 1,025           | 1,008  | 17       |
| Federal Funds Total               | 9,966              | 7,941           | 6,090  | 1,851    |
| Total-Municipal Affairs           | 11,154             | 8,966           | 7,097  | 1,869    |
| <b>Purchasing</b>                 |                    |                 |        |          |
| General Revenue Total             | 2,016              | 2,037           | 1,907  | 130      |
| Total-Purchasing                  | 2,016              | 2,037           | 1,907  | 130      |
| <b>Auditing</b>                   |                    |                 |        |          |
| General Revenue Total             | 1,690              | 1,674           | 1,499  | 175      |
| Total-Auditing                    | 1,690              | 1,674           | 1,499  | 175      |
| <b>Human Resources</b>            |                    |                 |        |          |
| Other Fund Total                  |                    | 8               | 9      | (1)      |
| General Revenue Total             | 6,900              | 6,372           | 6,210  | 162      |
| Federal Funds Total               |                    | 85              | 85     |          |
| Total-Human Resources             | 6,900              | 6,465           | 6,304  | 161      |
| <b>Personnel Appeal Board</b>     |                    |                 |        |          |
| General Revenue Total             | 118                | 94              | 86     | 8        |
| Total-Personnel Appeal Board      | 118                | 94              | 86     | 8        |
| <b>Taxation</b>                   |                    |                 |        |          |
| Motor Fuel Tax Evasion Program    | 56                 | 56              | 30     | 26       |
| Temporary Disability Insurance    | 757                | 736             | 704    | 32       |
| General Revenue Total             | 18,184             | 17,780          | 17,038 | 742      |
| Federal Funds Total               | 1,027              | 999             | 959    | 40       |
| Restricted Receipts Total         | 1,109              | 1,071           | 726    | 345      |
| Total-Taxation                    | 21,134             | 20,642          | 19,456 | 1,186    |
| <b>Registry of Motor Vehicles</b> |                    |                 |        |          |
| General Revenue Total             | 15,354             | 16,367          | 16,506 | (139)    |
| Federal Funds Total               | 29                 | 690             | 257    | 433      |
| Restricted Receipts Total         | 14                 | 14              | 15     | (1)      |
| Total-Registry of Motor Vehicles  | 15,397             | 17,070          | 16,778 | 292      |
| <b>Child Support</b>              |                    |                 |        |          |
| General Revenue Total             | 3,309              | 3,300           | 3,300  |          |
| Federal Funds Total               | 6,656              | 6,589           | 6,410  | 179      |
| Total-Child Support               | 9,965              | 9,889           | 9,710  | 179      |

|  | Original<br>Budget | Final<br>Budget | Actual | Variance |
|--|--------------------|-----------------|--------|----------|
| <b>Central Services</b>                            |                    |                 |        |          |
| General Revenue Totals                             | 11,622             | 12,453          | 13,037 | (584)    |
| Energy Office Grants                               | 663                | 900             | 980    | (80)     |
| Renewable Energy Program                           | 2,150              | 3,000           | 2,063  | 937      |
| Federal Funds Totals                               | 18,069             | 17,508          | 16,301 | 1,207    |
| Restricted Receipts Total                          | 777                | 899             | 569    | 330      |
| Total-Central Services                             | 33,281             | 34,759          | 32,950 | 1,809    |
| <b>Office of Library &amp; Information Service</b> |                    |                 |        |          |
| Federal Highway-PL Systems Planning                | 997                | 1,019           | 868    | 151      |
| Air Quality Modeling                               | 17                 | 17              | 16     | 1        |
| General Revenue Total                              | 4,746              | 4,874           | 4,288  | 586      |
| Federal Funds Total                                | 1,288              | 2,320           | 1,393  | 927      |
| Restricted Receipts Total                          | 5                  | 8               | 1      | 7        |
| Total-Office of Library & Information Service      | 7,054              | 8,238           | 6,565  | 1,673    |
| <b>General</b>                                     |                    |                 |        |          |
| RICAP-State House Terrace/South Stairs             | 583                | 333             | 311    | 22       |
| RICAP-Pastore Center Sewer Improvements            | 1,750              | 1,900           | 993    | 907      |
| RICAP-Chapin Health Laboratory                     | 263                | 83              | 51     | 32       |
| RICAP-Cranston Street Armory                       | 946                | 946             | 468    | 478      |
| RICAP-Cannon Building                              | 101                | 101             | 92     | 9        |
| RICAP-Old State House                              | 400                | 25              | 25     | 25       |
| RICAP-State Office Building                        | 215                | 215             | 276    | (61)     |
| RICAP-Veterans Office Building                     | 294                | 294             | 240    | 54       |
| RICAP- State Information Operations Center         | 43                 | 15              | 22     | (7)      |
| RICAP-Old Colony House                             | 134                | 74              | 20     | 54       |
| RICAP-Washington County Government Center          | 251                | 251             | 36     | 215      |
| RICAP-State House Security                         | 33                 | 6               | 6      |          |
| RICAP-State House Renovations - Phase II           | 539                | 339             | 286    | 53       |
| RICAP-William Powers Building                      | 213                | 163             | 120    | 43       |
| RICAP-State House Renovations-Phase III            | 290                | 445             | 292    | 153      |
| RICAP-Powers Building Tech Infrastructure          | 222                | 222             | 184    | 38       |
| RICAP-Board of Elections Building                  | 28                 | 28              | 50     | (22)     |
| RICAP-Environmental Compliance                     | 713                | 463             | 282    | 181      |
| RICAP-Fox Point Hurricane Barrier                  | 50                 | 50              | 50     |          |
| RICAP-Bio Tech Training Lab-Planning Funds         | 200                | 200             |        | 200      |
| RICAP-Fire Code Compliance State Building          | 250                | 50              |        | 50       |
| Information Processing Rotary Account-Overhead     | 680                |                 | 680    |          |
| Property Tax Relief Credit                         | 6,000              | 6,000           | 6,000  |          |
| Rhode Island Sports Foundation                     | 550                | 550             | 550    |          |
| Shepard Building Operating/Parking                 | 1,970              | 2,076           | 2,162  | (86)     |
| Miscellaneous Grants and Payments                  | 1,028              | 1,083           | 1,083  |          |
| Torts-Court Awards                                 | 400                | 400             | 614    | (214)    |
| Asset Inventory                                    | 150                | 150             | 51     | 99       |
| Race and Police Community Relations Commission     | 78                 | 78              | 83     | (5)      |
| State Employees/Teachers Retiree Health            | 5,644              | 6,442           | 5,748  | 694      |
| Masonic Temple                                     | 500                | 500             | 500    |          |
| Contingency Fund                                   | 648                | 648             | 468    | 180      |
| Economic Development Corporation Grant             | 6,833              | 6,833           | 6,817  | 16       |
| Office of City and Town Development-EDC            | 375                | 375             | 375    |          |

Exhibit A-57

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|   | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|---|--------------------|-----------------|---------|----------|
| Centers of Excellence                       | 3,000              | 3,000           | 3,000   |          |
| Economic Policy Council                     | 300                | 300             | 336     | (36)     |
| Housing Resources Commission                | 3,383              | 3,522           | 3,360   | 162      |
| Neighborhood Opportunities Program          | 5,000              | 5,000           | 4,903   | 97       |
| Motor Vehicle Excise Tax Payment            | 104,987            | 104,987         | 104,845 | 142      |
| Property Valuation                          | 861                | 861             | 648     | 213      |
| General Revenue Sharing Program             | 52,439             | 52,439          | 52,439  |          |
| Payment in Lieu of Tax Exempt Properties    | 22,716             | 22,716          | 22,716  |          |
| Distressed Communities Relief Program       | 8,533              | 9,533           | 9,533   |          |
| Resource Sharing and State Library Aid      | 8,092              | 8,085           | 8,069   | 16       |
| Library Construction Aid                    | 2,621              | 2,541           | 2,492   | 49       |
| EPScore-EDC                                 | 1,500              |                 |         |          |
| Federal Funds                               |                    | 402             | (17)    | 419      |
| Restricted Receipts Total                   | 1,126              | 1,126           | 1,081   | 45       |
| Total-General                               | 246,856            | 246,530         | 242,314 | 4,216    |
| Debt Service Payments                       |                    |                 |         |          |
| RICAP-DEM-Narragansett Bay Commission       | 373                | 373             | 373     |          |
| RICAP-DEM-Wastewater Treatment              | 4,731              | 4,685           | 4,685   |          |
| RICAP-DEM-Debt Service-Recreation           | 6,167              | 6,033           | 6,033   |          |
| RIPTA Debt Service                          | 623                | 583             | 583     |          |
| RICAP-MHRH Com Services                     | 5,413              | 5,306           | 5,306   |          |
| RICAP-MHRH Comm. Mental Health              | 2,087              | 2,375           | 2,375   |          |
| Transportation Debt Service                 | 34,570             | 33,045          | 33,041  | 4        |
| RIRBA-DLT Temporary Disability Insurance    | 46                 | 46              | 62      | (16)     |
| COPS-DLT Building-TDI                       | 361                | 363             | 355     | 8        |
| Cops-DLT Building-Reed Act                  | 30                 | 37              | 27      | 10       |
| COPS-Center General-Furniture-TDI           | 19                 | 18              | 18      |          |
| COPS-Center General-Furniture-Reed Act      | 6                  | 7               | 5       | 2        |
| COPS-Center General-Furniture-Reed Act      | 1                  | 2               | 1       | 1        |
| COPS-Pastore Center Telecomm-TDI            | 17                 | 17              | 16      | 1        |
| Debt-URI Education and General              | 1,089              | 1,089           | 3,597   | (2,508)  |
| Debt-URI Housing Loan Funds                 | 1,752              | 1,752           | 2,505   | (753)    |
| Debt-URI Dining Services                    | 267                | 267             | 241     | 26       |
| Debt-URI Health Services                    | 126                | 126             | 114     | 12       |
| Debt-W. Alton Jones Service                 | 113                | 113             | 101     | 12       |
| Debt-URI Memorial Union                     | 98                 | 98              | 89      | 9        |
| Debt-URI Sponsored Research (Indirect Cost) | 101                | 101             | 100     | 1        |
| Debt-RIC Education and General              | 297                | 297             | 292     | 5        |
| Debt-RIC Housing                            | 568                | 568             | 522     | 46       |
| Debt-RIC Student Center and Dining          | 178                | 178             | 158     | 20       |
| Debt-RIC Student Union                      | 217                | 217             | 275     | (58)     |
| Debt-CCRI Bookstore                         | 177                | 177             | 176     | 1        |
| Debt Service Special Account                |                    |                 | 104     | (104)    |
| Debt Service Payments                       | 89,725             | 85,118          | 85,120  | (2)      |
| Federal Funds                               | 1,286              | 1,355           | 1,209   | 146      |
| Restricted Receipts Fund                    | 7,787              | 6,551           | 5,887   | 664      |
| Total-Debt Service Payments                 | 158,227            | 150,898         | 153,370 | (2,472)  |

|   | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|---|--------------------|-----------------|---------|----------|
| Sheriffs                                  |                    |                 |         |          |
| General Revenue Total                     | 13,428             | 13,598          | 13,786  | (188)    |
| Total Sheriffs                            | 13,428             | 13,598          | 13,786  | (188)    |
| Pay Plan Reserve General Revenue          |                    | 7,138           |         | 7,138    |
| General Revenue Fund Total-Dept Of Admin  | 419,495            | 426,446         | 416,002 | 10,444   |
| Federal Grant Fund Total-Dept of Admin    | 38,602             | 38,214          | 32,942  | 5,272    |
| Restricted Fund Total-Dept of Admin       | 10,818             | 9,697           | 8,286   | 1,411    |
| Other Fund Total-Dept of Admin            | 68,776             | 65,913          | 66,558  | (645)    |
| Total-Department of Administration        | 537,690            | 540,270         | 523,788 | 16,482   |
| Department of Business Regulation         |                    |                 |         |          |
| Central Management                        |                    |                 |         |          |
| General Revenue Total                     | 1,686              | 1,710           | 1,743   | (33)     |
| Total-Central Management                  | 1,686              | 1,710           | 1,743   | (33)     |
| Banking Regulation                        |                    |                 |         |          |
| General Revenue Total                     | 1,687              | 1,676           | 1,659   | 17       |
| Total-Banking Regulation                  | 1,687              | 1,676           | 1,659   | 17       |
| Security Regulation                       |                    |                 |         |          |
| General Revenue Total                     | 806                | 790             | 775     | 15       |
| Total-Securities Regulation               | 806                | 790             | 775     | 15       |
| Commercial Licensing and Regulation       |                    |                 |         |          |
| General Revenue Total                     | 1,207              | 1,226           | 1,219   | 7        |
| Restricted Revenue Total                  | 100                | 100             | 16      | 84       |
| Total-Commercial Licensing and Regulation | 1,307              | 1,326           | 1,235   | 91       |
| Racing and Athletics                      |                    |                 |         |          |
| General Revenue Total                     | 546                | 474             | 477     | (3)      |
| Total-Racing and Athletics                | 546                | 474             | 477     | (3)      |
| Insurance Regulation                      |                    |                 |         |          |
| General Revenue Total                     | 3,985              | 3,501           | 3,272   | 229      |
| Restricted Receipts Total                 | 530                | 684             | 460     | 224      |
| Total-Insurance Regulation                | 4,515              | 4,186           | 3,732   | 454      |
| Board of Accountancy                      |                    |                 |         |          |
| General Revenue Total                     | 135                | 138             | 133     | 5        |
| Total-Board of Accountancy                | 135                | 138             | 133     | 5        |
| General Revenue Fund Total-DBR            | 10,053             | 9,515           | 9,278   | 237      |
| Restricted Fund Total-DBR                 | 630                | 784             | 476     | 308      |
| Total-Department of Business Regulation   | 10,683             | 10,300          | 9,755   | 545      |

Exhibit A-58

**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, 2005**  
**(Expressed in Thousands)**

|  | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|--|----------------------------|-------------------------|---------------|-----------------|
| Department of Labor and Training               |                            |                         |               |                 |
| Central Management                             |                            |                         |               |                 |
| General Revenue Total                          | 272                        | 374                     | 275           | 99              |
| Director of Workers' Compensation              | 446                        | 686                     | 523           | 163             |
| Total-Central Management                       | 719                        | 1,060                   | 799           | 261             |
| Workforce Development Services                 |                            |                         |               |                 |
| Reed Act-Woonsocket Network Office Renovations | 150                        | 314                     | 36            | 278             |
| Reed Act-Rapid Job Development                 | 1,650                      | 1,651                   | 1,336         | 315             |
| Reed Act-Workforce Development                 | 5,998                      | 4,780                   | 2,456         | 2,324           |
| Federal Funds Total                            | 14,674                     | 17,670                  | 15,171        | 2,499           |
| Restricted Receipts                            | 12,961                     | 11,164                  | 10,352        | 812             |
| Total-Workforce Development Services           | 35,433                     | 35,580                  | 29,351        | 6,229           |
| Workforce Regulation and Safety                |                            |                         |               |                 |
| General Revenue Total                          | 3,399                      | 3,340                   | 3,334         | 6               |
| Total-Workforce Regulation and Safety          | 3,399                      | 3,340                   | 3,334         | 6               |
| Income Support                                 |                            |                         |               |                 |
| General Revenue Total                          | 2,908                      | 3,049                   | 3,153         | (104)           |
| Federal Funds Total                            | 14,061                     | 14,476                  | 16,656        | (2,180)         |
| Restricted Receipt Total                       | 1,378                      | 1,349                   | 1,364         | (15)            |
| Total-Income Support                           | 18,348                     | 18,874                  | 21,173        | (2,299)         |
| Injured Workers Services                       |                            |                         |               |                 |
| Restricted Receipts Total                      | 11,232                     | 11,680                  | 10,083        | 1,597           |
| Total-Injured Workers Services                 | 11,232                     | 11,680                  | 10,083        | 1,597           |
| Labor Relations Board                          |                            |                         |               |                 |
| General Revenue Total                          | 342                        | 319                     | 334           | (15)            |
| Total-Labor Relations Board                    | 342                        | 319                     | 334           | (15)            |
| General Revenue Fund Total-DLT                 | 6,921                      | 7,082                   | 7,096         | (14)            |
| Federal Grants Fund Total-DLT                  | 28,735                     | 32,146                  | 31,826        | 320             |
| Restricted Fund Total-DLT                      | 26,017                     | 24,879                  | 22,323        | 2,556           |
| Other Fund Total-DLT                           | 7,799                      | 6,746                   | 3,828         | 2,918           |
| Total-Department of Labor and Training         | 69,472                     | 70,853                  | 65,074        | 5,779           |
| General Assembly                               |                            |                         |               |                 |
| General Revenue Fund Total                     | 31,444                     | 29,385                  | 26,933        | 2,452           |
| Restricted Receipts Fund Total                 | 1,099                      | 1,099                   | 1,099         |                 |
| Legislative Office Building                    | 1,500                      |                         |               |                 |
| General Revenue Fund Total-Gen Assembly        | 31,444                     | 29,385                  | 26,933        | 2,452           |
| Restricted Fund Total-Gen Assembly             | 1,099                      | 1,099                   | 1,099         |                 |
| Other Fund Total-Gen Assembly                  | 1,500                      |                         |               |                 |
| Total-General Assembly                         | 34,044                     | 30,483                  | 28,032        | 2,451           |

Exhibit A-59

**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, 2005**  
**(Expressed in Thousands)**

|  | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|--|----------------------------|-------------------------|---------------|-----------------|
| Office of the Lieutenant Governor                        |                            |                         |               |                 |
| Lt. Governor's Office-General                            |                            |                         |               |                 |
| General Revenue Total                                    | 865                        | 867                     | 848           | 19              |
| General Revenue Fund Total-Office of Lieutenant Governor | 865                        | 867                     | 848           | 19              |
| Total-Office of the Lieutenant Governor                  | 865                        | 867                     | 848           | 19              |
| Department of State                                      |                            |                         |               |                 |
| Administration   |                            |                         |               |                 |
| General Revenue Total                                    | 1,505                      | 1,534                   | 1,612         | (78)            |
| Total-Administration                                     | 1,505                      | 1,534                   | 1,612         | (78)            |
| Corporations   |                            |                         |               |                 |
| General Revenue Total                                    | 1,500                      | 1,504                   | 1,563         | (59)            |
| RI e-Gov Fund-UCC Automated System                       | 72                         | 84                      | 55            | 29              |
| Total-Corporation  | 1,572                      | 1,588                   | 1,618         | (30)            |
| State Archives   |                            |                         |               |                 |
| General Revenue Total                                    | 97                         | 94                      | 94            |                 |
| Restricted Receipts total                                | 523                        | 481                     | 391           | 90              |
| Total-State Archives                                     | 621                        | 575                     | 485           | 90              |
| Elections  |                            |                         |               |                 |
| General Revenue Total                                    | 743                        | 786                     | 807           | (21)            |
| Federal Funds Total                                      | 2,635                      | 2,934                   | 2,913         | 21              |
| Total-Elections  | 3,378                      | 3,720                   | 3,721         | (1)             |
| State Library  |                            |                         |               |                 |
| General Revenue Total                                    | 727                        | 710                     | 712           | (2)             |
| Total-State Library                                      | 727                        | 710                     | 712           | (2)             |
| Office of Public Information                             |                            |                         |               |                 |
| General Revenue Total                                    | 427                        | 412                     | 444           | (32)            |
| Total-Office of Public Information                       | 427                        | 412                     | 444           | (32)            |
| General Revenue Fund Total-Sec of State                  | 5,072                      | 5,124                   | 5,289         | (165)           |
| Federal Grant Fund Total-Sec of State                    | 2,635                      | 2,934                   | 2,913         | 21              |
| Restricted Fund Total-Sec of State                       | 523                        | 481                     | 391           | 90              |
| Total-Department of State                                | 8,230                      | 8,539                   | 8,593         | (54)            |
| Treasury Department                                      |                            |                         |               |                 |
| Treasury   |                            |                         |               |                 |
| General Revenue Total                                    | 2,513                      | 2,511                   | 2,398         | 113             |
| Federal Funds Total                                      | 261                        | 259                     | 237           | 22              |
| Restricted Receipts Total                                | 10                         | 10                      | 10            |                 |
| Total-Treasury   | 2,783                      | 2,780                   | 2,635         | 145             |

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance</u> |   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|----------------------------|-------------------------|---------------|-----------------|---|----------------------------|-------------------------|---------------|-----------------|
| State Retirement System                                 |                            |                         |               |                 | Office of Governor                                |                            |                         |               |                 |
| Administrative Expenses-State Retirement System         | 6,759                      | 6,809                   | 4,763         | 2,046           | General Revenue Total                             | 4,390                      | 4,440                   | 4,363         | 77              |
| Retirement-Treasury Investment Operations               | 686                        | 685                     | 994           | (309)           | General Revenue Fund Total-Office of the Governor | 4,390                      | 4,440                   | 4,363         | 77              |
| Total-State Retirement System                           | 7,445                      | 7,494                   | 5,757         | 1,737           | Total-Office of the Governor                      | 4,390                      | 4,440                   | 4,363         | 77              |
| Unclaimed Property                                      |                            |                         |               |                 | Public Utilities Commission                       |                            |                         |               |                 |
| Restricted Receipts Total                               | 19,561                     | 25,304                  | 25,202        | 102             | General Revenue Total                             | 820                        | 678                     | 628           | 50              |
| Total-Unclaimed Property                                | 19,561                     | 25,304                  | 25,202        | 102             | Federal Funds Total                               | 73                         | 72                      | 56            | 16              |
| RI Refunding Bond Authority                             |                            |                         |               |                 | Restricted Receipts Total                         | 5,338                      | 5,376                   | 4,133         | 1,243           |
| General Revenue Total                                   | 72                         | 52                      | 32            | 20              | General Revenue Fund Total-PUC                    | 820                        | 678                     | 628           | 50              |
| Total-RI Refunding Bond Authority                       | 72                         | 52                      | 32            | 20              | Federal Grant Fund Total-PUC                      | 73                         | 72                      | 56            | 16              |
| Crime Victim Compensation Program                       |                            |                         |               |                 | Restricted Fund Total-PUC                         | 5,338                      | 5,376                   | 4,133         | 1,243           |
| General Revenue Total                                   | 3,228                      | 752                     | 737           | 15              | Total-Public Utilities Commission                 | 6,232                      | 6,126                   | 4,818         | 1,308           |
| Federal Funds Total                                     | 4,111                      | 1,931                   | 1,477         | 454             | Rhode Island Commission on Women                  |                            |                         |               |                 |
| Restricted Receipts Total                               | 2,801                      | 2,070                   | 293           | 1,777           | General Revenue Total                             | 84                         | 85                      | 84            | 1               |
| Total-Crime Victim Compensation Program                 | 10,140                     | 4,753                   | 2,506         | 2,247           | General Revenue Fund Total-RI Commission on Women | 84                         | 85                      | 84            | 1               |
| General Revenue Fund Total-Treasury                     | 5,813                      | 3,316                   | 3,166         | 150             | Total-Rhode Island Commission on Women            | 84                         | 85                      | 84            | 1               |
| Federal Grant Fund Total-Treasury                       | 4,372                      | 2,190                   | 1,714         | 476             | Department of Children, Youth, and Families       |                            |                         |               |                 |
| Restricted Fund Total-Treasury                          | 22,372                     | 27,384                  | 25,494        | 1,890           | Central Management                                |                            |                         |               |                 |
| Other Fund Total-Treasury                               | 7,445                      | 7,494                   | 5,757         | 1,737           | General Revenue Total                             | 7,814                      | 7,671                   | 8,238         | (567)           |
| Total-Treasury Department                               | 40,001                     | 40,384                  | 36,131        | 4,253           | Federal Funds Total                               | 3,780                      | 3,738                   | 3,359         | 379             |
| Boards for Design Professionals-PL                      |                            |                         |               |                 | Total-Central Management                          | 11,594                     | 11,409                  | 11,597        | (188)           |
| Boards For Professional Design                          |                            |                         |               |                 | Children's Behavioral Health Services             |                            |                         |               |                 |
| General Revenue Total                                   | 414                        | 422                     | 379           | 43              | RICAP-Spurwink/RI                                 | 23                         | 1                       | 1             |                 |
| General Revenue Fund Total-Board of Professional Design | 414                        | 422                     | 379           | 43              | General Revenue Total                             | 21,867                     | 28,690                  | 27,374        | 1,316           |
| Total-Boards For Professional Designs-PL                | 414                        | 422                     | 379           | 43              | Federal Funds Total                               | 24,103                     | 35,612                  | 33,343        | 2,269           |
| Board of Elections                                      |                            |                         |               |                 | Total-Children's Behavioral Health Services       | 45,993                     | 64,303                  | 60,717        | 3,586           |
| General Revenue Total                                   | 1,608                      | 1,567                   | 1,502         | 65              | Juvenile Correctional Services                    |                            |                         |               |                 |
| Federal Funds Total                                     | 1,002                      | 1,342                   | 1,067         | 275             | RICAP-RI Training School-Girls Facilities         |                            | 900                     |               | 900             |
| General Revenue Fund Total-Board of Elections           | 1,608                      | 1,567                   | 1,502         | 65              | RICAP-NAFI Center                                 | 52                         |                         |               |                 |
| Federal Grant Fund Total-Board of Elections             | 1,002                      | 1,342                   | 1,067         | 275             | General Revenue Total                             | 28,554                     | 28,870                  | 28,420        | 450             |
| Total-Board Of Elections                                | 2,610                      | 2,909                   | 2,569         | 340             | Federal Funds Total                               | 2,760                      | 2,843                   | 3,017         | (174)           |
| Rhode Island Ethics Commission                          |                            |                         |               |                 | Restricted Receipts Total                         | 7                          | 611                     | 44            | 567             |
| General Revenue Total                                   | 1,170                      | 1,138                   | 969           | 169             | Total-Juvenile Correctional Services              | 31,372                     | 33,224                  | 31,481        | 1,743           |
| General Revenue Fund Total-RI Ethics Commission         | 1,170                      | 1,138                   | 969           | 169             | Child Welfare                                     |                            |                         |               |                 |
| Total-Rhode Island Ethics Commission                    | 1,170                      | 1,138                   | 969           | 169             | General Revenue Total                             | 85,254                     | 89,904                  | 91,133        | (1,229)         |
|   |                            |                         |               |                 | Federal Funds Total                               | 64,612                     | 66,761                  | 66,620        | 141             |
|   |                            |                         |               |                 | Restricted Receipts Total                         | 1,512                      | 1,609                   | 1,365         | 244             |
|   |                            |                         |               |                 | Total-Child Welfare                               | 151,378                    | 158,273                 | 159,119       | (846)           |

Exhibit A-60

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|  | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|--|--------------------|-----------------|---------|----------|
| Higher Education Incentive Grant                   |                    |                 |         |          |
| General Revenue Total                              | 200                | 200             | 200     |          |
| Total-Higher Education Incentive Grants            | 200                | 200             | 200     |          |
|  |                    |                 |         |          |
| General Revenue Fund Total-DCYF                    | 143,688            | 155,336         | 155,365 | (29)     |
| Federal Grant Fund Total-DCYF                      | 95,254             | 108,954         | 106,339 | 2,615    |
| Restricted Fund Total-DCYF                         | 1,519              | 2,220           | 1,410   | 810      |
| Other Fund Total-DCYF                              | 75                 | 901             | 1       | 900      |
|  |                    |                 |         |          |
| Total-Department of Children, Youth, and Families  | 240,536            | 267,410         | 263,114 | 4,296    |
|  |                    |                 |         |          |
| Department of Elderly Affairs                      |                    |                 |         |          |
| Intermodal Surface Transportation Fund             | 4,780              | 4,700           | 4,607   | 93       |
| General Revenues Total                             | 15,243             | 12,462          | 14,916  | (2,454)  |
| Safety and Care of the Elderly                     | 1                  | 1               | 1       |          |
| RJPAE  | 14,771             | 11,791          | 10,744  | 1,047    |
| Federal Funds Total                                | 12,396             | 13,916          | 11,769  | 2,147    |
| General Revenue Fund Total-Dept of Elderly Affairs | 30,014             | 24,254          | 25,660  | (1,406)  |
| Federal Grant Fund Total-Dept of Elderly Affairs   | 12,396             | 13,916          | 11,769  | 2,147    |
| Other Fund Totals-Dept of Elderly Affairs          | 4,780              | 4,700           | 4,607   | 93       |
|  |                    |                 |         |          |
| Total-Department of Elderly Affairs                | 47,190             | 42,870          | 42,037  | 833      |
|  |                    |                 |         |          |
| Department of Health                               |                    |                 |         |          |
| Central Management                                 |                    |                 |         |          |
| General Revenues Total                             | 4,676              | 4,475           | 4,693   | (218)    |
| Federal Funds Total                                | 5,210              | 4,453           | 4,074   | 379      |
| Restricted Receipts Total                          | 2,925              | 3,821           | 3,612   | 209      |
| Total-Central Management                           | 12,811             | 12,750          | 12,379  | 371      |
|  |                    |                 |         |          |
| State Medical Examiner                             |                    |                 |         |          |
| General Revenue Total                              | 1,827              | 1,859           | 1,828   | 31       |
| Federal Funds Total                                | 157                | 138             | 140     | (2)      |
| Total-State Medical Examiners                      | 1,983              | 1,997           | 1,969   | 28       |
|  |                    |                 |         |          |
| Family Health                                      |                    |                 |         |          |
| General Revenues Total                             | 2,831              | 2,843           | 2,898   | (55)     |
| Federal Funds Total                                | 32,002             | 30,799          | 29,491  | 1,308    |
| Restricted Receipts Total                          | 5,723              | 5,689           | 4,311   | 1,378    |
| Total-Family Health                                | 40,556             | 39,331          | 36,700  | 2,631    |
|  |                    |                 |         |          |
| Health Services Regulation                         |                    |                 |         |          |
| General Revenues Total                             | 4,618              | 4,462           | 4,235   | 227      |
| Federal Funds Total                                | 5,003              | 5,972           | 5,010   | 962      |
| Restricted Receipts Total                          | 382                | 358             | 294     | 64       |
| Total-Health Services Regulation                   | 10,004             | 10,792          | 9,539   | 1,253    |

|                                      | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|--------------------------------------|--------------------|-----------------|---------|----------|
| Environmental Health                 |                    |                 |         |          |
| General Revenue Total                | 4,430              | 4,370           | 4,395   | (25)     |
| Federal Funds Total                  | 4,070              | 5,338           | 3,789   | 1,549    |
| Restricted Receipts Total            | 1,439              | 1,670           | 1,475   | 195      |
| Total-Environmental Health           | 9,939              | 11,377          | 9,659   | 1,718    |
|                                      |                    |                 |         |          |
| Health Laboratories                  |                    |                 |         |          |
| General Revenue Total                | 6,008              | 5,913           | 5,844   | 69       |
| Federal Funds Total                  | 2,294              | 2,485           | 2,586   | (101)    |
| Total-Health Laboratories            | 8,302              | 8,399           | 8,430   | (31)     |
|                                      |                    |                 |         |          |
| Disease Prevention and Control       |                    |                 |         |          |
| General Revenue Total                | 4,786              | 5,154           | 5,219   | (65)     |
| Smoking Cessation                    | 835                | 835             | 748     | 87       |
| Federal Funds Total                  | 16,138             | 19,520          | 19,414  | 106      |
| Restricted Receipts Total            | 1,049              | 1,142           | 838     | 304      |
| Trauma Registry                      |                    |                 |         |          |
| Child Safety Program                 | 79                 | 84              | 21      | 63       |
| Walkable Communities Initiative      | 20                 | 28              | 17      | 11       |
| Total-Disease Prevention and Control | 22,907             | 26,764          | 26,257  | 507      |
|                                      |                    |                 |         |          |
| General Revenue Fund Total-Health    | 30,012             | 29,912          | 29,859  | 53       |
| Federal Grant Fund Total-Health      | 64,874             | 68,704          | 64,504  | 4,200    |
| Restricted Fund Total-Health         | 11,518             | 12,680          | 10,530  | 2,150    |
| Other Fund Total-Health              | 99                 | 113             | 38      | 75       |
|                                      |                    |                 |         |          |
| Total-Department of Health           | 106,503            | 111,408         | 104,932 | 6,476    |
|                                      |                    |                 |         |          |
| Department of Human Services         |                    |                 |         |          |
| Central Management                   |                    |                 |         |          |
| General Revenue Total                | 6,693              | 6,434           | 5,952   | 482      |
| Federal Funds Total                  | 4,321              | 5,204           | 3,791   | 1,413    |
| Restricted Receipts Total            | 2,450              | 2,444           | 2,399   | 45       |
| Total-Central Management             | 13,464             | 14,082          | 12,142  | 1,940    |
|                                      |                    |                 |         |          |
| Individual and Family Support        |                    |                 |         |          |
| RICAP-Blind Vending Facilities       | 187                |                 |         |          |
| General Revenue Total                | 21,297             | 21,057          | 21,304  | (247)    |
| Federal Funds Total                  | 53,649             | 53,778          | 49,019  | 4,759    |
| Restricted Receipts Total            | 79                 | 85              | 85      |          |
| Total-Individual and Family Support  | 75,212             | 74,920          | 70,407  | 4,513    |
|                                      |                    |                 |         |          |
| Veterans' Affairs                    |                    |                 |         |          |
| General Revenue Total                | 16,784             | 16,826          | 16,871  | (45)     |
| Federal Funds Total                  | 6,088              | 6,208           | 4,889   | 1,319    |
| Restricted Receipts Total            | 1,125              | 1,377           | 589     | 788      |
| Total-Veterans' Affairs              | 23,997             | 24,411          | 22,349  | 2,062    |

Exhibit A-61

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

Exhibit A-62

|   | Original<br>Budget | Final<br>Budget | Actual    | Variance |
|---|--------------------|-----------------|-----------|----------|
| Health Care Quality, Financing and Purchases    |                    |                 |           |          |
| General Revenue Total                           | 28,156             | 27,600          | 19,031    | 8,569    |
| Federal Funds Total                             | 41,756             | 43,344          | 36,029    | 7,315    |
| Restricted Receipts Total                       | 521                | 512             | 461       | 51       |
| Total-Health Care Quality, Financing & Purchase | 70,432             | 71,455          | 55,521    | 15,934   |
| Medical Benefits                                |                    |                 |           |          |
| General Revenue                                 |                    |                 |           |          |
| Managed Care                                    | 174,410            | 170,245         | 167,827   | 2,418    |
| Hospital  | 104,295            | 109,744         | 111,857   | (2,113)  |
| Other   | 103,983            | 118,373         | 120,065   | (1,692)  |
| Special Education                               | 15,561             | 14,805          | 14,805    |          |
| Nursing Facilities                              | 136,614            | 131,685         | 130,336   | 1,349    |
| General Revenue Total                           | 534,863            | 544,851         | 530,085   | 14,766   |
| Federal Funds                                   |                    |                 |           |          |
| Managed Care                                    | 215,107            | 215,802         | 210,440   | 5,362    |
| Hospitals                                       | 127,537            | 129,656         | 132,388   | (2,732)  |
| Nursing Facilities                              | 170,643            | 164,515         | 162,421   | 2,094    |
| Other   | 130,135            | 147,891         | 153,350   | (5,459)  |
| Special Education                               | 19,439             | 18,495          | 19,239    | (744)    |
| Federal Funds Total                             | 662,861            | 676,360         | 677,839   | (1,479)  |
| Restricted Receipts Total                       | 15                 | 15              | 5         | 10       |
| Total-Medical Benefits                          | 1,197,739          | 1,221,226       | 1,207,929 | 13,297   |
| Supplemental Security Income Program            |                    |                 |           |          |
| General Revenue Total                           | 27,300             | 27,414          | 27,314    | 100      |
| Total-Supplemental Security Income Program      | 27,300             | 27,414          | 27,314    | 100      |
| Family Independence Program                     |                    |                 |           |          |
| TANF/Families Independence Program              | 11,712             | 14,069          | 14,821    | (752)    |
| Child Care                                      | 57,350             | 56,047          | 56,126    | (79)     |
| Federal Funds Total                             | 83,137             | 82,857          | 81,964    | 893      |
| Total-Family Independence Program               | 152,198            | 152,973         | 152,912   | 61       |
| State Funded Programs                           |                    |                 |           |          |
| General Public Assistance                       | 3,332              | 2,847           | 2,930     | (83)     |
| Citizen Participation Program                   | 50                 | 50              | 50        |          |
| Federal Funds Total                             | 73,485             | 75,913          | 77,653    | (1,740)  |
| Total-State Funded Programs                     | 76,867             | 78,809          | 80,633    | (1,824)  |
| General Revenue Fund Total-Human Services       | 707,536            | 717,195         | 694,485   | 22,710   |
| Federal Grant Fund Total-Human Services         | 925,296            | 943,662         | 931,183   | 12,479   |
| Restricted Fund Total-Human Services            | 4,190              | 4,433           | 3,539     | 894      |
| Other Fund Total-Human Services                 | 187                |                 |           |          |
| Total-Department of Human Services              | 1,637,210          | 1,665,290       | 1,629,207 | 36,083   |

|  | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|--|--------------------|-----------------|---------|----------|
| Department of Mental Health, Retardation, and Hospital       |                    |                 |         |          |
| Central Management   |                    |                 |         |          |
| General Revenue Total  | 2,244              | 2,128           | 2,090   | 38       |
| Total-Central Management                                     | 2,244              | 2,128           | 2,090   | 38       |
| Hospital & Community System Support                          |                    |                 |         |          |
| RICAP-Utilities Upgrade                                      | 708                | 516             | 132     | 384      |
| RICAP-Medical Center Rehabilitation                          | 470                | 470             | 246     | 224      |
| RICAP-Utilities Systems Water Tanks and Pipes                | 241                | 97              | 16      | 81       |
| RICAP-Central Power Plant Rehabilitation                     | 224                | 268             | 132     | 136      |
| RICAP-Community Fire Code Compliance                         | 365                | 90              | 45      | 45       |
| General Revenue Total  | 22,209             | 24,816          | 26,229  | (1,413)  |
| Total-Hospital & Community System Support                    | 24,218             | 26,258          | 26,800  | (542)    |
| Service for the Developmentally Disabled                     |                    |                 |         |          |
| RICAP-MR/DD Residential Development                          | 1,500              | 1,110           | 1,185   | (75)     |
| General Revenue Total  | 102,081            | 103,488         | 102,527 | 961      |
| RICAP-DD State Owned Group Home                              | 996                | 996             | 966     | 30       |
| Federal Funds Total  | 126,971            | 125,889         | 126,002 | (113)    |
| Total-Service for the Developmentally Disabled               | 231,548            | 231,483         | 230,681 | 802      |
| Integrated Mental Health Services                            |                    |                 |         |          |
| General Revenue Total  | 39,474             | 40,990          | 40,341  | 649      |
| Federal Funds Total  | 36,364             | 37,402          | 35,890  | 1,512    |
| Total-Integrated Mental Health Services                      | 75,838             | 78,392          | 76,230  | 2,162    |
| Hospital & Community Rehabilitation Svcs                     |                    |                 |         |          |
| RICAP-Zambarano Buildings and Utilities                      | 239                | 239             | 22      | 217      |
| General Revenue Total  | 45,746             | 46,072          | 44,533  | 1,539    |
| Federal Funds Total  | 55,360             | 54,480          | 56,856  | (2,376)  |
| Total-Hospital & Community Rehabilitation Svcs               | 101,346            | 100,791         | 101,411 | (620)    |
| Substance Abuse  |                    |                 |         |          |
| RICAP-Asset Protection                                       | 104                | 104             | 54      | 50       |
| General Revenues Total                                       | 14,567             | 14,852          | 14,618  | 234      |
| Federal Funds Total  | 14,233             | 15,089          | 14,032  | 1,057    |
| Restricted Receipts Total                                    | 75                 | 100             | 50      | 50       |
| Total-Substance Abuse  | 28,979             | 30,145          | 28,753  | 1,392    |
| General Revenue Fund Total-MHRH                              | 226,321            | 232,346         | 230,338 | 2,008    |
| Federal Grant Fund Total-MHRH                                | 232,928            | 232,861         | 232,779 | 82       |
| Restricted Fund Total-MHRH                                   | 75                 | 100             | 50      | 50       |
| Other Fund Total-MHRH  | 4,848              | 3,891           | 2,798   | 1,093    |
| Total-Department of Mental Health, Retardation, and Hospital | 464,173            | 469,198         | 465,965 | 3,233    |

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

Exhibit A-63

|   | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|------------------------|---------------------|---------------|-----------------|
| Office of Child Advocate                                      |                        |                     |               |                 |
| General Revenue Total   | 501                    | 398                 | 340           | 58              |
| Federal Funds Total   | 54                     | 34                  | 81            | (47)            |
| Restricted Receipts Total                                     |                        | 1                   | 1             |                 |
| General Revenue Fund Total-Office of Child Advocate           | 501                    | 398                 | 340           | 58              |
| Federal Grant Fund Total-Office of Child Advocate             | 54                     | 34                  | 81            | (47)            |
| Restricted Fund Total-Office of Child Advocate                |                        | 1                   | 1             |                 |
| Total-Office of the Child Advocate                            | 555                    | 433                 | 421           | 12              |
| Rhode Island Commission of the Deaf and Hard of Hearing       |                        |                     |               |                 |
| Commission On Deaf and Hard Of Hearing                        |                        |                     |               |                 |
| General Revenue Total   | 272                    | 302                 | 262           | 40              |
| General Revenue Fund Total-RI Comm of the Deaf                | 272                    | 302                 | 262           | 40              |
| Total-Rhode Island Commission of the Deaf and Hard of Hearing | 272                    | 302                 | 262           | 40              |
| State Council on Developmental Disabilities                   |                        |                     |               |                 |
| Federal Funds Total   | 571                    | 510                 | 599           | (89)            |
| Federal Grant Fund Total-State Comm on Dev Disab.             | 571                    | 510                 | 599           | (89)            |
| Total-State Council on Developmental Disabilities             | 571                    | 510                 | 599           | (89)            |
| Governor's Commission on Disabilities                         |                        |                     |               |                 |
| General Revenue Total   | 534                    | 513                 | 535           | (22)            |
| Federal Funds Total   | 180                    | 153                 | 39            | 114             |
| Restricted Receipts Total                                     | 35                     | 62                  | 23            | 39              |
| RICAP-Handicapped Accessibility Facility Renovation           | 283                    | 105                 | 109           | (4)             |
| General Revenue Fund Total-Governor's Comm on Disab.          | 534                    | 513                 | 535           | (22)            |
| Federal Grant Fund Total-Governor's Comm on Disab.            | 180                    | 153                 | 39            | 114             |
| Restricted Fund Total-Governor's Comm on Disab.               | 35                     | 62                  | 23            | 39              |
| Other Fund Total-Governor's Comm on Disab.                    | 283                    | 105                 | 109           | (4)             |
| Total-Governor's Commission on Disabilities                   | 1,032                  | 833                 | 706           | 127             |
| Rhode Island Commission for Human Rights                      |                        |                     |               |                 |
| General Revenue Total   | 984                    | 994                 | 997           | (3)             |
| Federal Funds Total   | 239                    | 216                 | 110           | 106             |
| General Revenue Fund Total-RI Comm for Human Rights           | 984                    | 994                 | 997           | (3)             |
| Federal Grant Fund Total-RI Comm for Human Rights             | 239                    | 216                 | 110           | 106             |
| Total-Rhode Island Commission for Human Rights                | 1,224                  | 1,210               | 1,107         | 103             |
| Office of Mental Health Advocate                              |                        |                     |               |                 |
| General Revenue Total   | 332                    | 339                 | 340           | (1)             |
| General Revenue Fund Total-Office of Mental Health Advocate   | 332                    | 339                 | 340           | (1)             |
| Total-Office of Mental Health Advocate                        | 332                    | 339                 | 340           | (1)             |

|  | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|------------------------|---------------------|---------------|-----------------|
| Department of Elementary and Secondary Education             |                        |                     |               |                 |
| State Aid  |                        |                     |               |                 |
| General Revenue Total  | 624,404                | 625,356             | 625,340       | 16              |
| Federal Funds Total  | 579                    | 2,462               | 1,867         | 595             |
| Restricted Funds Total                                       | 1,968                  | 2,060               | 1,167         | 893             |
| Total-State Aid  | 626,951                | 629,877             | 628,374       | 1,503           |
| School Housing Aid   |                        |                     |               |                 |
| General Revenue Total  | 43,856                 | 42,180              | 42,180        |                 |
| Total-School Housing Aid                                     | 43,856                 | 42,180              | 42,180        |                 |
| Teachers' Retirement   |                        |                     |               |                 |
| General Revenue Total  | 52,583                 | 48,503              | 48,503        |                 |
| Total-Teachers' Retirement                                   | 52,583                 | 48,503              | 48,503        |                 |
| RI School for the Deaf                                       |                        |                     |               |                 |
| RICAP-School for the Deaf-Physical Education Fac             | 561                    | 561                 | 507           | 54              |
| General Revenue Total  | 5,700                  | 5,749               | 5,747         | 2               |
| Federal Funds Total  | 790                    | 409                 | 265           | 144             |
| Total-RI School for the Deaf                                 | 7,051                  | 6,720               | 6,520         | 200             |
| Central Falls School District                                |                        |                     |               |                 |
| General Revenue Total  | 35,992                 | 37,804              | 37,804        |                 |
| Total-Central Falls School District                          | 35,992                 | 37,804              | 37,804        |                 |
| Davies Career and Technical School                           |                        |                     |               |                 |
| RICAP-Davies Roof Repair                                     | 437                    | 437                 | 432           | 5               |
| General Revenue Total  | 12,527                 | 12,174              | 11,951        | 223             |
| Federal Funds Total  | 1,150                  | 1,454               | 1,194         | 260             |
| Restricted Receipts Total                                    | 25                     | 15                  | 1             | 14              |
| Total-Davies Career and Technical School                     | 14,140                 | 14,080              | 13,579        | 501             |
| Metropolitan Career and Technical School                     |                        |                     |               |                 |
| General Revenue Total  | 7,262                  | 7,262               | 7,262         |                 |
| Total-Metropolitan Career and Technical School               | 7,262                  | 7,262               | 7,262         |                 |
| Administration of the Comprehensive Education Strategy       |                        |                     |               |                 |
| RICAP-Charlho Wells  |                        | 81                  | 15            | 66              |
| RICAP-State Owned Schools-Fire Alarm Systems                 | 577                    | 143                 | 122           | 21              |
| General Revenue Total  | 15,439                 | 15,178              | 15,167        | 11              |
| Federal Funds Total  | 144,765                | 164,783             | 179,759       | (14,976)        |
| Restricted Receipts Total                                    | 997                    | 1,212               | 1,705         | (493)           |
| Total-Administration of the Comprehensive Education Strategy | 161,777                | 181,396             | 196,767       | (15,371)        |
| General Revenue Fund Total-Dept of Elem & Sec Education      | 797,763                | 794,206             | 793,955       | 251             |
| Federal Grant Fund Total-Dept of Elem & Sec Education        | 147,283                | 169,108             | 183,085       | (13,977)        |
| Restricted Fund Total-Dept of Elem & Sec Education           | 2,990                  | 3,287               | 2,873         | 414             |
| Other Fund Total-Dept of Elem & Sec Education                | 1,575                  | 1,222               | 1,076         | 146             |
| Total-Department of Elementary and Secondary Education       | 949,612                | 967,823             | 980,990       | (13,167)        |

**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, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

Exhibit A-64

|   | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|---|--------------------|-----------------|---------|----------|
| Board of Governors for Higher Education                             |                    |                 |         |          |
| Board Of Governors/Office   |                    |                 |         |          |
| General Revenue Fund Total  | 5,855              | 5,893           | 5,883   | 10       |
| Federal Fund Total  | 3,352              | 3,352           | 2,527   | 825      |
| General Revenue Fund Total-URI                                      | 81,600             | 81,841          | 81,841  |          |
| General Revenue Fund Total-RIC                                      | 43,633             | 43,892          | 43,892  |          |
| General Revenue Fund Total-CCRI                                     | 43,167             | 41,816          | 41,816  |          |
| General Revenue Fund Total-BOG Higher Education                     | 174,256            | 173,442         | 173,432 | 10       |
| Federal Grant Fund Total-BOG Higher Education                       | 3,352              | 3,352           | 2,527   | 825      |
| Total-Board of Governors for Higher Education                       | 177,607            | 176,794         | 175,960 | 834      |
| Rhode Island State Council on the Arts                              |                    |                 |         |          |
| Operating Support   | 456                | 1,248           | 462     | 786      |
| Grants  | 1,987              | 1,200           | 1,329   | (129)    |
| Federal Funds Total   | 721                | 677             | 678     | (1)      |
| Restricted Receipts Total   | 200                | 200             | 38      | 162      |
| General Revenue Fund Total-RI State Council on the Arts             | 2,442              | 2,448           | 1,791   | 657      |
| Federal Grant Fund Total-RI State Council on the Arts               | 721                | 677             | 678     | (1)      |
| Restricted Fund Total-RI State Council on the Arts                  | 200                | 200             | 38      | 162      |
| Total-Rhode Island State Council on the Arts                        | 3,363              | 3,326           | 2,507   | 819      |
| Rhode Island Atomic Energy Commission                               |                    |                 |         |          |
| URI Sponsored Research  | 157                | 147             | 142     | 5        |
| RICAP-Paint Interior Reactor Building Walls                         | 55                 | 55              | 54      | 1        |
| General Revenue Total   | 727                | 720             | 716     | 4        |
| Federal Funds Total   | 325                | 325             | 65      | 260      |
| General Revenue Fund Total-RI Atomic Energy Council                 | 727                | 720             | 716     | 4        |
| Federal Grant Fund Total-RI Atomic Energy Council                   | 325                | 325             | 65      | 260      |
| Other Fund Total-RI Atomic Energy Council                           | 212                | 202             | 195     | 7        |
| Total-Rhode Island Atomic Energy Commission                         | 1,264              | 1,246           | 976     | 270      |
| R I Higher Education Assistance Authority                           |                    |                 |         |          |
| General Revenue Total   | 9,956              | 9,960           | 9,957   | 3        |
| General Revenue Fund Total-RI Higher Education Assistance Authority | 9,956              | 9,960           | 9,957   | 3        |
| Total-R I Higher Education Assistance Authority                     | 9,956              | 9,960           | 9,957   | 3        |
| Historical Preservation and Heritage Commission                     |                    |                 |         |          |
| General Revenue Total   | 1,221              | 1,225           | 1,221   | 4        |
| Federal Funds Total   | 593                | 604             | 570     | 34       |
| Restricted Receipts Total   | 207                | 219             | 174     | 45       |
| General Revenue Fund Total-Historical Preservation                  | 1,221              | 1,225           | 1,221   | 4        |
| Federal Grant Fund Total-Historical Preservation                    | 593                | 604             | 570     | 34       |
| Restricted Fund Total-Historical Preservation                       | 207                | 219             | 174     | 45       |
| Total-Historical Preservation and Heritage Commission               | 2,021              | 2,047           | 1,965   | 82       |

|   | Original<br>Budget | Final<br>Budget | Actual | Variance |
|---|--------------------|-----------------|--------|----------|
| R I Public Telecommunication Authority                            |                    |                 |        |          |
| General Revenue Total   | 1,238              | 1,067           | 1,039  | 28       |
| General Revenue Fund Total-R I Public Telecommunication Authority | 1,238              | 1,067           | 1,039  | 28       |
| Total-R I Public Telecommunication Authority                      | 1,238              | 1,067           | 1,039  | 28       |
| Department of Attorney General                                    |                    |                 |        |          |
| Criminal  |                    |                 |        |          |
| General Revenue Total   | 11,324             | 11,037          | 10,750 | 287      |
| Federal Funds Total   | 1,334              | 1,315           | 1,242  | 73       |
| Restricted Receipts Total   | 346                | 356             | 239    | 117      |
| Total-Criminal  | 13,005             | 12,708          | 12,231 | 477      |
| Civil   |                    |                 |        |          |
| General Revenue Total   | 3,488              | 3,455           | 3,616  | (161)    |
| Federal Funds Total   | 76                 | 76              | 76     |          |
| Restricted Receipts Total   | 456                | 485             | 459    | 26       |
| Total-Civil   | 4,020              | 3,940           | 4,075  | (135)    |
| Bureau of Criminal Identification                                 |                    |                 |        |          |
| General Revenue Total   | 815                | 814             | 827    | (13)     |
| Federal Funds Total   | 165                | 379             | 344    | 35       |
| Total-Bureau of Criminal Identification                           | 980                | 1,193           | 1,172  | 21       |
| General   |                    |                 |        |          |
| General Revenue Total   | 1,717              | 1,941           | 1,949  | (8)      |
| RICAP-Building Renovations & Repairs                              | 398                | 398             | 203    | 195      |
| Total-General   | 1,717              | 1,941           | 1,949  | (8)      |
| General Revenue Fund Total-Dept of Attorney General               | 17,344             | 17,247          | 17,142 | 105      |
| Federal Grant Fund Total-Dept of Attorney General                 | 1,576              | 1,694           | 1,586  | 108      |
| Restricted Fund Total-Dept of Attorney General                    | 803                | 841             | 698    | 143      |
| Other Fund Total-Dept of Attorney General                         | 398                | 398             | 203    | 195      |
| Total-Department of Attorney General                              | 20,120             | 20,179          | 19,629 | 550      |
| Department of Corrections   |                    |                 |        |          |
| Central Management  |                    |                 |        |          |
| General Revenue Total   | 10,009             | 10,576          | 10,057 | 519      |
| Federal Funds Total   | 361                | 361             | 191    | 170      |
| Total-Central Management  | 10,009             | 10,937          | 10,248 | 689      |
| Parole Board  |                    |                 |        |          |
| General Revenue Total   | 1,063              | 1,057           | 1,002  | 55       |
| Federal Fund Total  | 33                 | 33              | 25     | 8        |
| Total-Parole Board  | 1,063              | 1,090           | 1,027  | 63       |

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

|  | Original<br>Budget | Final<br>Budget | Actual  | Variance |
|--|--------------------|-----------------|---------|----------|
| <b>Institutional Corrections</b>                       |                    |                 |         |          |
| RICAP-Fire Code Safety Improvements                    | 533                | 100             | 1       | 99       |
| RICAP-Security Camera Installation                     | 573                | 303             | 261     | 42       |
| RICAP-Bernadette Guay Bldg. Roof                       | 415                | 15              | 8       | 7        |
| RICAP-Heating & Temperature Controls                   | 342                | 195             | 211     | (16)     |
| RICAP-Medium HVAC Renovations                          | 31                 |                 |         |          |
| RICAP-Reintegration Center State Match                 | 689                | 150             |         | 150      |
| RICAP-Dix Expansion-State Match                        | 46                 | 6               | 6       |          |
| RICAP-General Renovations-Maximum                      | 554                | 584             | 451     | 133      |
| RICAP-Roof/Masonry Renovations-Women's                 | 1,030              | 1,000           | 545     | 455      |
| RICAP-Perimeter/Security Upgrades                      | 288                | 100             | 38      | 62       |
| RICAP-Women's Bath Renovation                          | 749                | 400             | 237     | 163      |
| RICAP-Dix Expansion Consolidation                      |                    |                 |         |          |
| RICAP-Correctional Industries Roof                     | 176                | 21              | 15      | 6        |
| General Revenue Total                                  | 124,687            | 124,559         | 124,649 | (90)     |
| Federal Funds Total                                    | 7,958              | 8,465           | 1,602   | 6,863    |
| Restricted Receipts Total                              | 137                | 220             | 217     | 3        |
| Total-Institutional Corrections                        | 138,209            | 136,118         | 128,240 | 7,878    |
| <b>Community Corrections</b>                           |                    |                 |         |          |
| General Revenue Total                                  | 12,329             | 11,178          | 11,153  | 25       |
| Federal Funds Total                                    | 1,754              | 1,981           | 1,072   | 909      |
| Total-Community Corrections                            | 14,083             | 13,160          | 12,225  | 935      |
| General Revenue Fund Total-Corrections                 | 148,089            | 147,370         | 146,861 | 509      |
| Federal Grant Fund Total-Corrections                   | 9,712              | 10,841          | 2,890   | 7,951    |
| Restricted Fund Total-Corrections                      | 137                | 220             | 217     | 3        |
| Other Fund Total-Corrections                           | 5,427              | 2,874           | 1,772   | 1,102    |
| Total-Department of Corrections                        | 163,364            | 161,305         | 151,740 | 9,565    |
| <b>Judicial Department</b>                             |                    |                 |         |          |
| <b>Supreme Court</b>                                   |                    |                 |         |          |
| RICAP-McGrath Judicial Complex Interior                | 100                | 425             | 318     | 107      |
| RICAP-Blackston Valley Courthouse Study                | 300                | 150             | 150     |          |
| RICAP-Murray Judicial Complex - Interior Refurbishment | 73                 | 23              | 19      | 4        |
| RICAP-Fogarty Judicial Annex                           | 48                 | 23              | 23      |          |
| RICAP-Garrahy Lighting & Ceiling                       | 600                |                 |         |          |
| RICAP-Licht Judicial Complex Roof Study                | 25                 |                 |         |          |
| RICAP-Licht Judicial Complex-Foundation                | 35                 | 35              |         | 35       |
| RICAP-Judicial Complexes HVAC                          | 197                | 197             | 194     | 3        |
| General Revenue Total                                  | 22,923             | 23,653          | 22,802  | 851      |
| Defense of Indigents                                   | 2,507              | 2,573           | 2,655   | (82)     |
| Federal Funds Total                                    | 849                | 1,099           | 749     | 350      |
| Restricted Receipts Total                              | 901                | 954             | 898     | 56       |
| Total-Supreme Court                                    | 28,558             | 29,131          | 27,636  | 1,495    |
| <b>Superior Court</b>                                  |                    |                 |         |          |
| Federal Funds Total                                    | 633                | 728             | 188     | 540      |
| General Revenue Total                                  | 17,613             | 17,570          | 17,151  | 419      |
| Total-Superior Court                                   | 18,246             | 18,298          | 17,338  | 960      |

|   | Original<br>Budget | Final<br>Budget | Actual | Variance |
|---|--------------------|-----------------|--------|----------|
| <b>Family Court</b>                       |                    |                 |        |          |
| General Revenue Total                     | 13,890             | 13,290          | 14,601 | (1,311)  |
| Federal Funds Total                       | 2,666              | 3,329           | 1,666  | 1,663    |
| Restricted Receipts Total                 | 148                | 141             | 141    |          |
| Total-Family Court                        | 16,704             | 16,760          | 16,267 | 493      |
| <b>District Court</b>                     |                    |                 |        |          |
| General Revenue Total                     | 8,670              | 8,376           | 8,287  | 89       |
| Federal Funds Total                       | 5                  | 9               | 2      | 7        |
| Total-District Court                      | 8,675              | 8,385           | 8,289  | 96       |
| <b>Traffic Tribunal</b>                   |                    |                 |        |          |
| General Revenue Total                     | 6,587              | 6,637           | 6,220  | 417      |
| Total-Traffic Tribunal                    | 6,587              | 6,637           | 6,220  | 417      |
| <b>Worker's Compensation Court</b>        |                    |                 |        |          |
| Restricted Receipts Total                 | 6,124              | 6,201           | 5,833  | 368      |
| Total-Worker's Compensation Court         | 6,124              | 6,201           | 5,833  | 368      |
| General Revenue Fund Total-Judicial Dept  | 72,190             | 72,099          | 71,715 | 384      |
| Federal Grant Fund Total-Judicial Dept    | 4,153              | 5,165           | 2,605  | 2,560    |
| Restricted Fund Total-Judicial Dept       | 7,173              | 7,295           | 6,730  | 565      |
| Other Fund Total-Judicial Dept            | 1,378              | 853             | 532    | 321      |
| Total-Judicial Department                 | 84,894             | 85,412          | 81,582 | 3,830    |
| <b>Militia of the State</b>               |                    |                 |        |          |
| <b>National Guard</b>                     |                    |                 |        |          |
| RICAP-Logistic/Maintenance Facilities     |                    |                 |        |          |
| RICAP-Camp Fogarty Training Site          | 50                 |                 |        |          |
| RICAP-Bristol Armory Rehabilitation       | 95                 |                 | 5      | (5)      |
| RICAP-Benefit St. Arsenal Rehabilitation  | 233                |                 | 7      | (7)      |
| RICAP-Schofield Armory Rehabilitation     | 220                | 20              | 20     |          |
| RICAP-US Property and Finance Office-HVAC | 107                | 107             | 110    | (3)      |
| RICAP-State Armories Fire Code Comp       | 13                 | 13              | 13     |          |
| RICAP-Warwick Armory Boiler               | 50                 | 50              | 50     |          |
| RICAP-Federal Armories Fire Code Comp     | 6                  | 25              | 25     |          |
| RICAP-North Smithfield Armory             | 86                 |                 |        |          |
| RICAP-Emergency Operations Center         |                    | 10              |        | 10       |
| RICAP-AMC Roof Rehabilitation             | 50                 |                 | 4      | (4)      |
| RICAP-Army Aviation Support Facility      |                    |                 |        |          |
| RICAP-Logistics/Maintenance Facilities    | 6                  | 25              |        | 25       |
| General Revenue Total                     | 1,632              | 1,736           | 1,643  | 93       |
| Federal Funds Total                       | 8,594              | 6,997           | 5,574  | 1,423    |
| Restricted Receipts Total                 |                    | 145             | 38     | 107      |
| Total-National Guard                      | 11,141             | 9,128           | 7,381  | 1,747    |

Exhibit A-65

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

|  | Original<br>Budget | Final<br>Budget | Actual | Variance |
|--|--------------------|-----------------|--------|----------|
| Emergency Management   |                    |                 |        |          |
| General Revenue Total  | 544                | 582             | 693    | (111)    |
| Federal Funds Total  | 26,450             | 34,542          | 12,077 | 22,465   |
| Restricted Receipts Total                                      | 188                | 274             | 118    | 156      |
| Total-Emergency Management                                     | 27,183             | 35,398          | 12,888 | 22,510   |
| General Revenue Fund Total-Militia of the State                | 2,176              | 2,317           | 2,336  | (19)     |
| Federal Grant Fund Total-Militia of the State                  | 35,044             | 41,540          | 17,651 | 23,889   |
| Restricted Fund Total-Militia of the State                     | 188                | 419             | 156    | 263      |
| Other Fund Total-Militia of the State                          | 915                | 249             | 125    | 124      |
| Total-Militia of the State                                     | 38,323             | 44,525          | 20,269 | 24,256   |
| E-911 Uniform Emergency Telephone System                       |                    |                 |        |          |
| General Revenue Total  | 3,821              | 3,838           | 3,882  | (44)     |
| Federal Funds Total  |                    | 136             | 67     | 69       |
| Restricted Receipts Total                                      | 1,650              | 1,534           | 971    | 563      |
| General Revenue Fund Total-E-911 Uniform Emer Telephone System | 3,821              | 3,838           | 3,882  | (44)     |
| Federal Funds Total-E-911 Uniform Emer Telephone Systems       |                    | 136             | 67     | 69       |
| Restricted Receipts Total-E-911 Uniform Emer Telephone System  | 1,650              | 1,534           | 971    | 563      |
| Total-E-911 Uniform Emergency Telephone System                 | 5,471              | 5,508           | 4,919  | 589      |
| Fire Safety Code Board of Appeal and Review                    |                    |                 |        |          |
| Fire Code Commission   |                    |                 |        |          |
| General Revenue Total  | 241                | 243             | 237    | 6        |
| General Revenue Fund Total-Fire Safety Code                    | 241                | 243             | 237    | 6        |
| Total-Fire Safety Code Board of Appeal and Review              | 241                | 243             | 237    | 6        |
| Division of Fire Safety  |                    |                 |        |          |
| Fire Safety & Training Academy                                 |                    |                 |        |          |
| General Revenue Total  | 1,978              | 2,042           | 2,100  | (58)     |
| Federal Funds Total  | 408                | 340             | 121    | 219      |
| Other Funds  | 20                 | 13              | 13     | 13       |
| General Revenue Fund Total-Div. of Fire Safety                 | 1,978              | 2,042           | 2,100  | (58)     |
| Federal Grant Fund Total-Div. of Fire Safety                   | 408                | 340             | 121    | 219      |
| Other Fund Total-Div. of Fire Safety                           | 20                 | 13              | 13     | 13       |
| Total-Division of Fire Safety                                  | 2,406              | 2,395           | 2,221  | 174      |
| Commission on Judicial Tenure & Discipline                     |                    |                 |        |          |
| General Revenue Total  | 103                | 125             | 129    | (4)      |
| General Revenue Fund Total-Comm on Judicial Tenure             | 103                | 125             | 129    | (4)      |
| Total-Commission on Judicial Tenure & Discipline               | 103                | 125             | 129    | (4)      |

|   | Original<br>Budget | Final<br>Budget | Actual | Variance |
|---|--------------------|-----------------|--------|----------|
| Rhode Island Governor's Justice Commission                  |                    |                 |        |          |
| General Revenue Total                                       | 248                | 254             | 254    |          |
| Federal Funds Total   | 5,688              | 5,787           | 5,018  | 769      |
| Restricted Receipts Total                                   | 90                 | 30              | 24     | 6        |
| General Revenue Fund Total-RI Gov Just Comm                 | 248                | 254             | 254    |          |
| Federal Grant Fund Total-RI Gov Just Comm                   | 5,688              | 5,787           | 5,018  | 769      |
| Restricted Fund Total-RI Gov Just Comm                      | 90                 | 30              | 24     | 6        |
| Total-Rhode Island Governor's Justice Commission            | 6,026              | 6,071           | 5,296  | 775      |
| Municipal Police Training School                            |                    |                 |        |          |
| General Revenue Total                                       | 361                | 364             | 343    | 21       |
| Federal Funds Total   | 143                | 129             | 46     | 83       |
| General Revenue Fund Total-Municipal Police Training School | 361                | 364             | 343    | 21       |
| Federal Grant Fund Total-Municipal Police Training School   | 143                | 129             | 46     | 83       |
| Total-Municipal Police Training School                      | 504                | 493             | 389    | 104      |
| Rhode Island State Police                                   |                    |                 |        |          |
| RICAP-Barracks & Training Headquarters'                     | 165                | 190             |        | 190      |
| RICAP-Headquarters Repair/Renovation                        | 75                 | 75              | 59     | 16       |
| Traffic Enforcement-Municipal Training                      | 119                | 88              | 161    | (73)     |
| Lottery Commission Assistance                               | 119                | 129             | 128    | 1        |
| Road Construction Reimbursement                             | 1,587              | 2,278           | 2,277  | 1        |
| General Revenue Total                                       | 43,114             | 42,549          | 42,443 | 106      |
| Federal Funds Total   | 1,715              | 1,973           | 1,144  | 829      |
| Restricted Receipts Total                                   | 298                | 445             | 248    | 197      |
| General Revenue Fund Total-State Police                     | 43,114             | 42,549          | 42,443 | 106      |
| Federal Grant Fund Total-State Police                       | 1,715              | 1,973           | 1,144  | 829      |
| Restricted Fund Total-State Police                          | 298                | 445             | 248    | 197      |
| Other Fund Total-State Police                               | 2,065              | 2,760           | 2,625  | 135      |
| Total-Rhode Island State Police                             | 47,192             | 47,726          | 46,461 | 1,265    |
| Office of Public Defenders                                  |                    |                 |        |          |
| General Revenue Total                                       | 6,876              | 6,957           | 6,871  | 86       |
| Federal Funds Total   | 419                | 452             | 284    | 168      |
| General Revenue Fund Total-Office of Public Defenders       | 6,876              | 6,957           | 6,871  | 86       |
| Federal Grant Fund Total-Office of Public Defenders         | 419                | 452             | 284    | 168      |
| Total-Office of Public Defenders                            | 7,295              | 7,409           | 7,156  | 253      |
| Department of Environmental Management                      |                    |                 |        |          |
| Policy and Administration                                   |                    |                 |        |          |
| DOT Recreational Projects                                   | 49                 | 48              | 28     | 20       |
| Blackstone Bikepath Design                                  | 1,249              | 1,249           | 1,150  | 99       |
| RICAP-Dam Repair  | 1,394              | 1,660           | 2,165  | (505)    |
| General Revenue Total                                       | 8,315              | 8,452           | 8,064  | 388      |
| Federal Funds Total   | 1,991              | 2,450           | 710    | 1,740    |
| Restricted Receipts Total                                   | 2,868              | 3,206           | 3,500  | (294)    |
| Total-Policy and Administration                             | 15,865             | 17,065          | 15,618 | 1,447    |

Exhibit A-66

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

|  | Original<br>Budget | Final<br>Budget | Actual | Variance |
|--|--------------------|-----------------|--------|----------|
| Natural Resources                            |                    |                 |        |          |
| RICAP-Jamestown Fishing Pier                 | 75                 | 75              | 7      | 68       |
| RICAP-Fort Myers Rehabilitation              | 350                | 350             | 350    |          |
| RICAP-Recreational Facilities Improvement    | 1,904              | 904             | 633    | 271      |
| RICAP-Wickford Marine facility               | 200                | 200             | 2      | 198      |
| RICAP-Galilee Piers                          | 1,047              | 1,512           | 1,322  | 190      |
| RICAP-Boyd's Marsh Habitat Restoration       |                    |                 | 24     | (24)     |
| RICAP-Newport Piers                          | 202                | 202             | 180    | 22       |
| General Revenue Total                        | 15,417             | 15,636          | 16,094 | (458)    |
| Federal Funds Total                          | 13,487             | 15,679          | 8,641  | 7,038    |
| Restricted Receipts Total                    | 3,656              | 3,824           | 2,970  | 854      |
| Total-Natural Resources                      | 36,337             | 38,381          | 30,223 | 8,158    |
| Environmental Protection                     |                    |                 |        |          |
| General Revenue Total                        | 9,013              | 9,119           | 9,120  | (1)      |
| Federal Funds Total                          | 9,915              | 10,257          | 7,066  | 3,191    |
| Restricted Receipts Total                    | 4,505              | 4,294           | 2,702  | 1,592    |
| Total-Environmental Protection               | 23,433             | 23,670          | 18,888 | 4,782    |
| General Revenue Fund Total-DEM               | 32,745             | 33,207          | 33,278 | (71)     |
| Federal Grant Fund Total-DEM                 | 25,393             | 28,386          | 16,418 | 11,968   |
| Restricted Fund Total-DEM                    | 11,029             | 11,324          | 9,171  | 2,153    |
| Other Fund Total-DEM                         | 6,468              | 6,199           | 5,862  | 337      |
| Total-Department of Environmental Management | 75,635             | 79,117          | 64,729 | 14,388   |
| Coastal Resources Management Council         |                    |                 |        |          |
| RICAP-Allins Cove                            |                    | 50              |        | 50       |
| General Revenue Total                        | 1,460              | 1,480           | 1,417  | 63       |
| Federal Funds Total                          | 2,145              | 2,843           | 2,279  | 564      |
| Restricted Total                             | 250                | 250             | 135    | 115      |
| General Revenue Fund Total-Coastal Resources | 1,460              | 1,480           | 1,417  | 63       |
| Federal Grant Fund Total-Coastal Resources   | 2,145              | 2,843           | 2,279  | 564      |
| Restricted Fund Total-Coastal Resources      | 250                | 250             | 135    | 115      |
| Other Fund Total-Coastal Resources           |                    | 50              |        | 50       |
| Total-Coastal Resources Management Council   | 3,855              | 4,623           | 3,831  | 792      |

|  | Original<br>Budget  | Final<br>Budget     | Actual              | Variance          |
|--|---------------------|---------------------|---------------------|-------------------|
| Water Resources Board                                  |                     |                     |                     |                   |
| RICAP-Big River Management Area                        | 104                 | 104                 | 93                  | 11                |
| RICAP-Supplemental Water Supplies Development          | 400                 |                     |                     |                   |
| General Revenue Total                                  | 1,229               | 1,161               | 1,088               | 73                |
| Federal Total  | 500                 | 500                 | 607                 | (107)             |
| Restricted Receipts Total                              | 495                 | 939                 | 848                 | 91                |
| General Revenue Fund Total-Water Resources Board       | 1,229               | 1,161               | 1,088               | 73                |
| Federal Grant Fund Total-Water Resources Board         | 500                 | 500                 | 607                 | (107)             |
| Restricted Fund Total-Water Resources Board            | 495                 | 939                 | 848                 | 91                |
| Other Fund Total-Water Resources Board                 | 504                 | 104                 | 93                  | 11                |
| Total-Water Resources Board                            | 2,728               | 2,705               | 2,635               | 70                |
| Departmental Expenditures                              | 4,818,704           | 4,906,718           | 4,778,710           | 128,008           |
| Transfer of Excess Budget Reserve to Bond Capital Fund |                     |                     | 54,002              | (54,002)          |
| <b>Total Expenditures</b>                              | <b>4,818,704</b>    | <b>4,906,718</b>    | <b>4,832,712</b>    | <b>74,006</b>     |
| <b>Change in Fund Balance</b>                          | <b>\$ 6,450</b>     | <b>\$ 67,360</b>    | <b>28,508</b>       | <b>\$ 38,852</b>  |
| Fund balance - beginning                               |                     |                     | 156,294             |                   |
| Fund balance - ending                                  |                     |                     | <u>\$ 184,802</u>   |                   |
| General Revenue Funds Total                            | \$ 2,947,923        | \$ 2,965,973        | \$ 2,926,928        | \$ 39,045         |
| Federal Grants Funds Total                             | 1,646,382           | 1,719,761           | 1,655,563           | 64,198            |
| Restricted Funds Total                                 | 109,645             | 116,198             | 100,040             | 16,158            |
| Other Funds Total                                      | 114,754             | 104,786             | 96,179              | 8,607             |
| <b>General Fund Grand Total</b>                        | <b>\$ 4,818,704</b> | <b>\$ 4,906,718</b> | <b>\$ 4,778,710</b> | <b>\$ 128,008</b> |

\*\* Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 Intermodal Surface Transportation Fund  
 For the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

|   | Original<br>Budget | Final<br>Budget  | Actual<br>Amounts | Variance<br>with Final<br>Budget |
|---|--------------------|------------------|-------------------|----------------------------------|
| <b>Revenues:</b>                            |                    |                  |                   |                                  |
| Taxes                                       | \$ 143,400         | \$ 141,000       | \$ 142,696        | \$ 1,696                         |
| Departmental restricted revenue             | 4,450              | 6,380            | 8,222             | 1,842                            |
| Federal grants                              | 207,421            | 207,386          | 226,839           | 19,453                           |
| Other revenues                              | 5,268              | 5,268            | 2,268             | (3,000)                          |
| Total revenues                              | <u>360,539</u>     | <u>360,034</u>   | <u>380,025</u>    | <u>19,991</u>                    |
| <b>Other financing sources:</b>             |                    |                  |                   |                                  |
| Operating transfers in                      |                    |                  | 32,701            | 32,701                           |
| Total revenues and other financing sources  | <u>360,539</u>     | <u>360,034</u>   | <u>412,726</u>    | <u>52,692</u>                    |
| <b>Expenditures:</b>                        |                    |                  |                   |                                  |
| Central Management                          |                    |                  |                   |                                  |
| Gasoline Tax                                | 3,545              | 3,508            | 3,142             | 366                              |
| Federal Funds                               | 8,962              | 8,958            | 2,270             | 6,688                            |
| Total - Central Management                  | <u>12,507</u>      | <u>12,466</u>    | <u>5,412</u>      | <u>7,054</u>                     |
| Management and Budget                       |                    |                  |                   |                                  |
| Gasoline Tax                                | 1,946              | 1,970            | 2,314             | (344)                            |
| Total - Management and Budget               | <u>1,946</u>       | <u>1,970</u>     | <u>2,314</u>      | <u>(344)</u>                     |
| Infrastructure - Engineering                |                    |                  |                   |                                  |
| Gasoline Tax                                | 49,631             | 46,282           | 48,253            | (1,971)                          |
| RICAP - RIPTA Land and Buildings            | 107                | 107              | 28                | 79                               |
| Train Station                               | 100                | 100              |                   | 100                              |
| State Infrastructure Bank                   | 1,000              | 1,000            |                   | 1,000                            |
| Land Sale Revenue                           | 4,000              | 4,000            | 902               | 3,098                            |
| Federal Funds                               | 198,459            | 198,428          | 183,644           | 14,784                           |
| Restricted Receipts                         | 4,450              | 6,380            | 636               | 5,744                            |
| Subtotal - Infrastructure - Engineering     | <u>257,747</u>     | <u>256,297</u>   | <u>233,463</u>    | <u>22,834</u>                    |
| State Match - FHWA                          |                    |                  | 44,429            | (44,429)                         |
| Total - Infrastructure - Engineering        | <u>257,747</u>     | <u>256,297</u>   | <u>277,892</u>    | <u>(21,595)</u>                  |
| Infrastructure - Maintenance                |                    |                  |                   |                                  |
| Gasoline Tax                                | 39,533             | 41,472           | 42,092            | (620)                            |
| Outdoor Advertising                         |                    |                  |                   |                                  |
| Total - Infrastructure - Maintenance        | <u>39,533</u>      | <u>41,472</u>    | <u>42,092</u>     | <u>(620)</u>                     |
| Total Expenditures                          | <u>311,733</u>     | <u>312,205</u>   | <u>327,710</u>    | <u>(15,505)</u>                  |
| <b>Other financing uses:</b>                |                    |                  |                   |                                  |
| Transfers to other funds                    |                    |                  |                   |                                  |
| Federal                                     |                    |                  | 41,809            | (41,809)                         |
| Gas tax                                     |                    |                  | 46,896            | (46,896)                         |
| Other                                       |                    |                  | 168               | (168)                            |
| Total expenditures and other financing uses | <u>311,733</u>     | <u>312,205</u>   | <u>416,583</u>    | <u>(104,378)</u>                 |
| Net change in fund balance                  | <u>\$ 48,806</u>   | <u>\$ 47,829</u> | <u>(3,857)</u>    | <u>\$ (51,686)</u>               |
| Fund balance - beginning                    |                    |                  | 37,797            |                                  |
| Fund balance - ending                       |                    |                  | <u>\$ 33,940</u>  |                                  |

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State of Rhode Island and Providence Plantations  
 Required Supplementary Information  
 Schedules of Funding Progress  
 June 30, 2005  
 (Expressed in thousands)

State of Rhode Island and Providence Plantations  
 Notes to Required Supplementary Information  
 June 30, 2005

**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) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 06/30/2004               | 5,543,427                     | 9,328,983   | 3,785,556                   | 59.4%                | 1,472,620           | 257.1%  |
| 06/30/2003 **            | 5,695,358                     | 8,858,979   | 3,163,621                   | 64.3%                | 1,440,744           | 219.6%  |
| 06/30/2002               | 5,907,680                     | 8,141,130   | 2,233,450                   | 72.6%                | 1,378,905           | 162.0%  |

**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) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 06/30/2004               | 24,767                        | 32,689  | 7,922                       | 75.8%                | 11,422              | 69.4%   |
| 06/30/2003               | 20,966                        | 28,443  | 7,477                       | 73.7%                | 11,286              | 66.3%   |
| 06/30/2002               | 17,770                        | 23,527  | 5,757                       | 75.5%                | 10,933              | 52.7%   |

**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) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 06/30/2004               | 16,019                        | 21,846  | 5,827                       | 73.3%                | 5,638               | 103.3%  |
| 06/30/2003               | 13,270                        | 18,435  | 5,165                       | 72.0%                | 5,303               | 97.4%   |
| 06/30/2002               | 11,129                        | 16,243  | 5,114                       | 68.5%                | 4,738               | 107.9%  |

\*\* Restated June 30, 2003 actuarial accrued liability due to the adoption of Article 7, Substitute A as Amended

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

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

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

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

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the R.I Capital Fund projects and any unexpended balances designated by the General Assembly.

## **Exhibit B – State Economic Information**

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## **Economic Information**

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

### **Overview**

***Population Characteristics.*** Rhode Island experienced an average annual population increase of 0.5 percent between 1990 and 2004. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.4 percent in 2005. The 2000 United States census count for Rhode Island was 1,050,742 or 4.4 percent more than the 1,005,995 counted in 1990. In contrast, the total United States population increased by 13.0 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has grown to 1,076,189 as of July 1, 2005.

***Personal Income and Poverty.*** Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1990 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2005, Rhode Island per capita personal income was \$35,219 versus U.S. per capita personal income of \$34,495. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2005 period, Rhode Island's average poverty rate was 11.1 percent versus the U.S. average poverty rate of 12.3 percent.

***Employment.*** According to the Rhode Island Department of Labor and Training, total Rhode Island non-farm employment grew at a rate of 1.0 percent in 2003, 0.9 percent in 2004 and 0.6 percent in 2005. The growth rate for 2005 was equal to the average annual growth rate for RI non-farm employment for the 1990 – 2005 period.

***Economic Base and Performance.*** Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

***Human Resources.*** Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 27.2 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of March 2005 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1989-90 academic year. For 2003-04 Rhode Island spent 38.0 percent more per pupil than the national average.

## Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the past ten years, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

Between 1995 and 2005 Rhode Island's population increased by 5.8 percent, compared to a 5.7 percent increase for the New England region, and a 11.3 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.8 percent compared to 2.8 percent for New England as a whole. The 2005 population estimates indicate that Rhode Island's population growth rate, at -0.4 percent over 2004, 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 1995 to 2005 period, the United States' average annual population growth rate was 1.2 percent, more than twice that of Rhode Island.

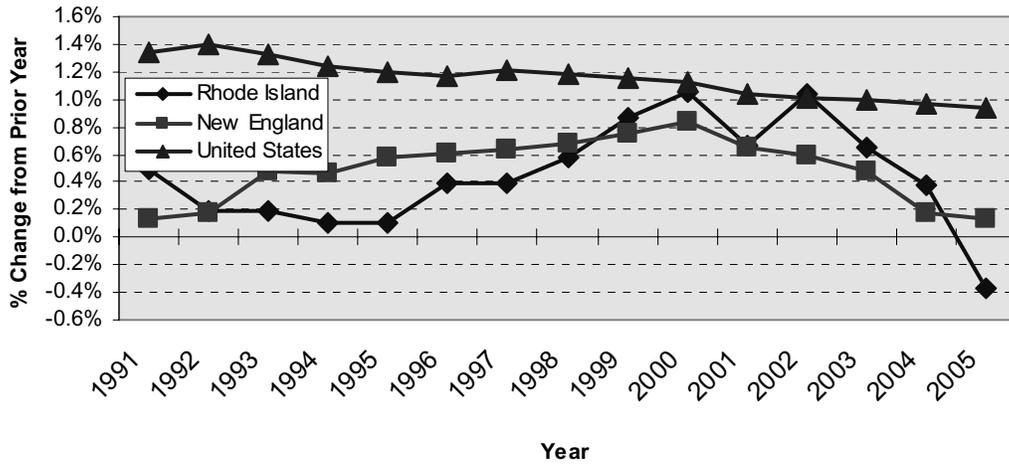
**Population, 1990 - 2005**  
(in thousands)

| Year    | Rhode Island |          | New England |          | United States |          |
|---------|--------------|----------|-------------|----------|---------------|----------|
|         | Total        | % Change | Total       | % Change | Total         | % Change |
| 1990    | 1,006        | -        | 13,230      | -        | 249,623       | -        |
| 1991    | 1,011        | 0.5%     | 13,248      | 0.1%     | 252,981       | 1.3%     |
| 1992    | 1,013        | 0.2%     | 13,271      | 0.2%     | 256,514       | 1.4%     |
| 1993    | 1,015        | 0.2%     | 13,334      | 0.5%     | 259,919       | 1.3%     |
| 1994    | 1,016        | 0.1%     | 13,396      | 0.5%     | 263,126       | 1.2%     |
| 1995    | 1,017        | 0.1%     | 13,473      | 0.6%     | 266,278       | 1.2%     |
| 1996    | 1,021        | 0.4%     | 13,555      | 0.6%     | 269,394       | 1.2%     |
| 1997    | 1,025        | 0.4%     | 13,642      | 0.6%     | 272,647       | 1.2%     |
| 1998    | 1,031        | 0.6%     | 13,734      | 0.7%     | 275,854       | 1.2%     |
| 1999    | 1,040        | 0.9%     | 13,838      | 0.8%     | 279,040       | 1.2%     |
| 2000    | 1,051        | 1.1%     | 13,953      | 0.8%     | 282,193       | 1.1%     |
| 2001    | 1,058        | 0.7%     | 14,043      | 0.6%     | 285,107       | 1.0%     |
| 2002    | 1,069        | 1.0%     | 14,126      | 0.6%     | 287,984       | 1.0%     |
| 2003    | 1,076        | 0.7%     | 14,194      | 0.5%     | 290,850       | 1.0%     |
| 2004    | 1,080        | 0.4%     | 14,222      | 0.2%     | 293,657       | 1.0%     |
| 2005(p) | 1,076        | -0.4%    | 14,240      | 0.1%     | 296,410       | 0.9%     |

U.S. Department of Commerce. Bureau of Economic Analysis  
(p) = Preliminary estimate.

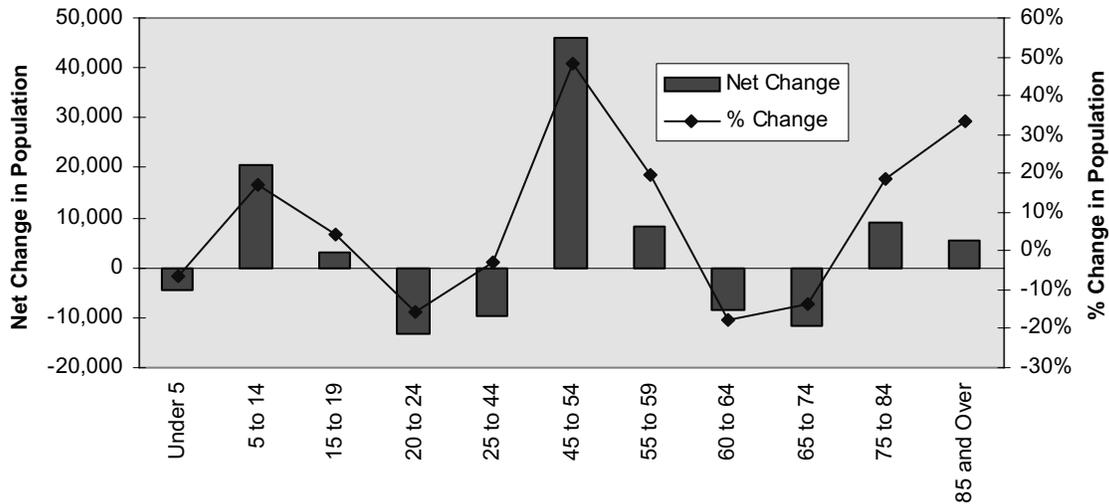
The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.

**Percentage Change in Total Population, 1990 - 2005**



The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. The upswing in Rhode Islanders in the “5 to 14” age group is a reflection of the “baby boom echo” generation.

**Change in Rhode Island Population by Age, 1990 - 2000**

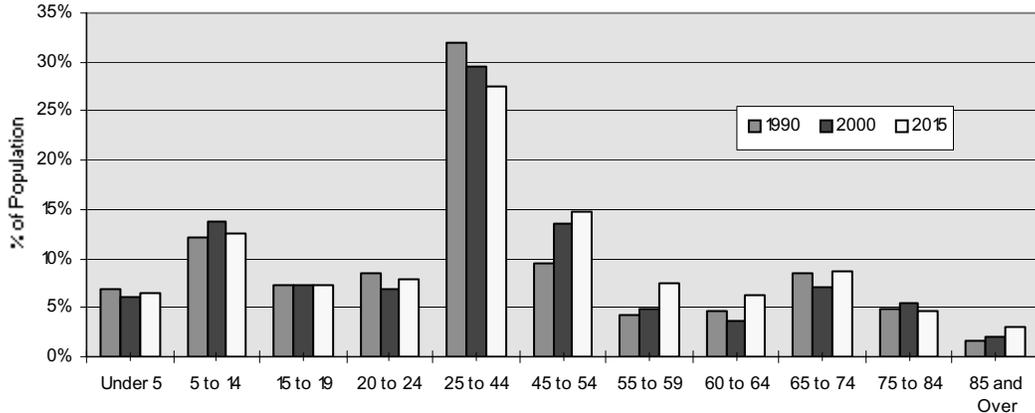


Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the “baby boom” generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders is projected to rise to 38.2.

**Distribution of Rhode Island Population by Age**



U.S. Census Bureau

### **Personal Income, Consumer Prices, and Poverty**

**Personal Income.** The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita personal income has tracked that of the United States throughout the 1990 – 2005 period. In general, Rhode Island's per capita nominal personal income exceeded that of the United States from 1990 to 1997, with the exception of 1994 and 1996. Over this period, Rhode Island per capita nominal personal income averaged \$119 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$441. From 2002 to 2005, Rhode Island per capita nominal personal income again exceeded that of the U.S. as a whole by an average of \$697. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1990 – 2005 by an average of \$4,746. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at \$6,904 in 2000. In 2004, the gap had fallen 15.9 percent to \$6,119 but rose again in 2005 to \$6,566.

In 1991 and 1992, per capita real income levels in Rhode Island grew at an annual rate lower than that for the United States. From 1992 to 1997, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded that of the United States. In 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. In 2001 – 2003, this pattern reversed itself as the national economy slid into recession. In 2004 – 2005, the pattern again reversed with real income trailing that of the United States. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. Over the fifteen year period from 1990 to 2005, Rhode Island per capita real income growth has exceeded that of New England as a whole on five occasions, 1993, 1995, and, most recently, 2001 – 2003. In 2004, the growth in per capita real income for New England once again surged ahead of that for the State of Rhode Island and continued into 2005.

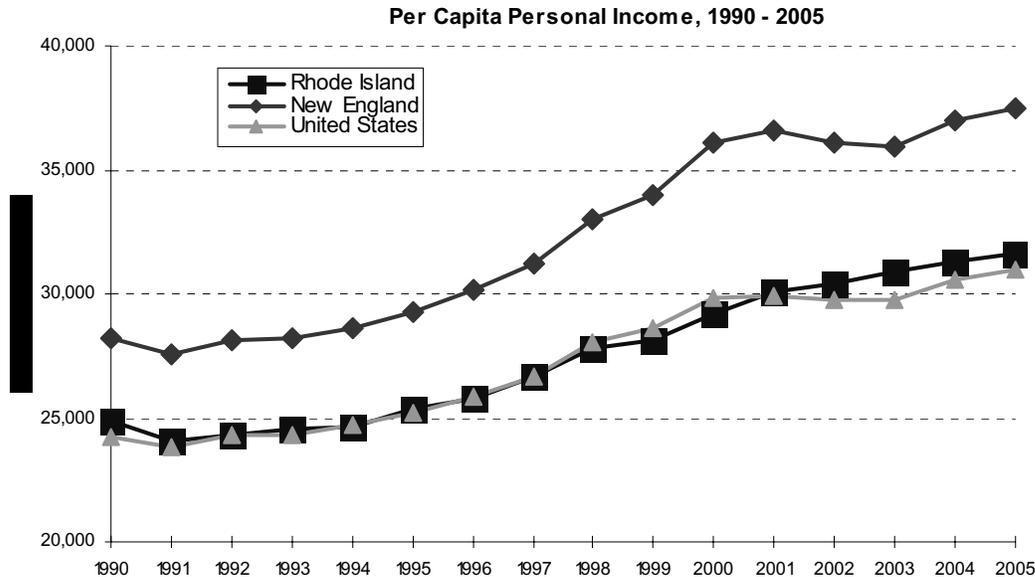
**Per Capita Personal Income, 1990 – 2005**

| Year    | Nominal Income<br>(in current dollars) |        |        | 2000<br>Deflator | Real Income<br>(in 2000 dollars) |        |        | Percentage Change<br>in Real Income |       |       |
|---------|--|--------|--------|------------------|----------------------------------|--------|--------|-------------------------------------|-------|-------|
|         | R.I.                                   | N.E.   | U.S.   |                  | R.I.                             | N.E.   | U.S.   | R.I.                                | N.E.  | U.S.  |
| 1990    | 20,006                                 | 22,712 | 19,477 | 80.50%           | 24,853                           | 28,215 | 24,196 | -                                   | -     | -     |
| 1991    | 20,049                                 | 22,969 | 19,892 | 83.42%           | 24,034                           | 27,535 | 23,846 | -3.3%                               | -2.4% | -1.4% |
| 1992    | 20,867                                 | 24,172 | 20,854 | 85.82%           | 24,314                           | 28,165 | 24,299 | 1.2%                                | 2.3%  | 1.9%  |
| 1993    | 21,586                                 | 24,752 | 21,346 | 87.81%           | 24,584                           | 28,190 | 24,311 | 1.1%                                | 0.1%  | 0.0%  |
| 1994    | 22,097                                 | 25,687 | 22,172 | 89.65%           | 24,647                           | 28,651 | 24,731 | 0.3%                                | 1.6%  | 1.7%  |
| 1995    | 23,225                                 | 26,832 | 23,076 | 91.58%           | 25,361                           | 29,300 | 25,199 | 2.9%                                | 2.3%  | 1.9%  |
| 1996    | 24,106                                 | 28,194 | 24,175 | 93.55%           | 25,769                           | 30,139 | 25,843 | 1.6%                                | 2.9%  | 2.6%  |
| 1997    | 25,341                                 | 29,687 | 25,334 | 95.12%           | 26,640                           | 31,209 | 26,633 | 3.4%                                | 3.5%  | 3.1%  |
| 1998    | 26,670                                 | 31,677 | 26,883 | 95.98%           | 27,787                           | 33,004 | 28,009 | 4.3%                                | 5.8%  | 5.2%  |
| 1999    | 27,459                                 | 33,126 | 27,939 | 97.58%           | 28,141                           | 33,949 | 28,633 | 1.3%                                | 2.9%  | 2.2%  |
| 2000    | 29,214                                 | 36,118 | 29,845 | 100.00%          | 29,214                           | 36,118 | 29,845 | 3.8%                                | 6.4%  | 4.2%  |
| 2001    | 30,687                                 | 37,342 | 30,574 | 102.09%          | 30,058                           | 36,576 | 29,947 | 2.9%                                | 1.3%  | 0.3%  |
| 2002    | 31,478                                 | 37,379 | 30,810 | 103.54%          | 30,401                           | 36,100 | 29,756 | 1.1%                                | -1.3% | -0.6% |
| 2003    | 32,459                                 | 38,009 | 31,484 | 105.52%          | 30,761                           | 36,021 | 29,837 | 1.2%                                | -0.2% | 0.3%  |
| 2004    | 34,207                                 | 40,260 | 33,050 | 108.25%          | 31,601                           | 37,193 | 30,533 | 2.7%                                | 3.3%  | 2.3%  |
| 2005(p) | 36,153                                 | 42,314 | 34,586 | 113.31%          | 31,905                           | 37,343 | 30,523 | 1.0%                                | 0.4%  | 0.0%  |

U.S. Department of Commerce, Bureau of Economic Analysis

Note: The 2000 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures.

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1990. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2005 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1990 – 2005 period.



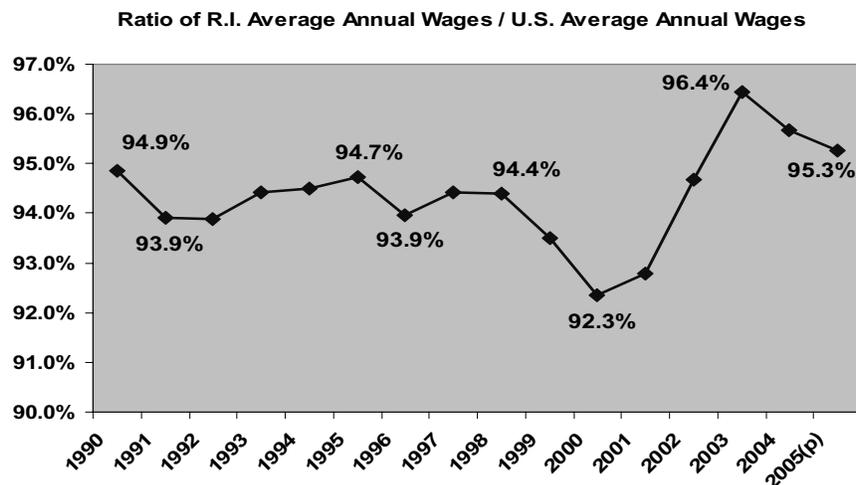
**Average Annual Pay.** Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend until recently. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004 and 2005, average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

**Average Annual Pay, 1990 – 2005**  
(In current dollars)

| Year | R.I.   | U.S.   | Ratio     |      |
|------|--------|--------|-----------|------|
|      |        |        | R.I./U.S. |      |
| 1990 | 22,387 | 23,602 | 94.9%     | -    |
| 1991 | 23,082 | 24,578 | 93.9%     | 3.1% |
| 1992 | 24,315 | 25,897 | 93.9%     | 5.3% |
| 1993 | 24,889 | 26,361 | 94.4%     | 2.4% |
| 1994 | 25,454 | 26,939 | 94.5%     | 2.3% |
| 1995 | 26,375 | 27,846 | 94.7%     | 3.6% |
| 1996 | 27,194 | 28,946 | 93.9%     | 3.1% |
| 1997 | 28,662 | 30,353 | 94.4%     | 5.4% |
| 1998 | 30,156 | 31,945 | 94.4%     | 5.2% |
| 1999 | 31,169 | 33,340 | 93.5%     | 3.4% |
| 2000 | 32,615 | 35,320 | 92.3%     | 4.6% |
| 2001 | 33,603 | 36,219 | 92.8%     | 3.0% |
| 2002 | 34,810 | 36,764 | 94.7%     | 3.6% |
| 2003 | 36,415 | 37,765 | 96.4%     | 4.6% |
| 2004 | 37,651 | 39,354 | 95.7%     | 3.4% |
| 2005 | 38,746 | 40,671 | 95.3%     | 2.9% |

U.S. Department of Labor. Bureau of Labor Statistics

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1990 – 2005 period.



**Consumer Prices.** The following table presents consumer price index trends for the Northeast region and the United States for the period between 1990 and 2005. 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 1990 to 1992, the consumer price inflation in the Northeast consistently exceeded that for the United States by at least 0.3 percentage points. From 1993 to 2001, consumer price inflation rate in the Northeast has been, on average, slightly below that of the United States. During this period, consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1993 – 1996, 1998 and 1999. In 2000 and 2001 consumer price inflation in the Northeast region was equal to that of the United States. In 2002, 2003, 2004, and 2005, 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, and 0.2 percent respectively.

**Consumer Price Index for All Urban Consumers (CPI-U), 1990 – 2005  
(1982 – 1984 = 100)**

| Year | CPI-U     |       | Ratio<br>Northeast/U.S. | Pct. Change |      |
|------|-----------|-------|-------------------------|-------------|------|
|      | Northeast | U.S.  |                         | Northeast   | U.S. |
| 1990 | 136.3     | 130.7 | 104.3%                  | -           | -    |
| 1991 | 142.5     | 136.2 | 104.6%                  | 4.5%        | 4.2% |
| 1992 | 147.3     | 140.3 | 105.0%                  | 3.4%        | 3.0% |
| 1993 | 151.4     | 144.5 | 104.8%                  | 2.8%        | 3.0% |
| 1994 | 155.1     | 148.2 | 104.7%                  | 2.4%        | 2.6% |
| 1995 | 159.1     | 152.4 | 104.4%                  | 2.6%        | 2.8% |
| 1996 | 163.6     | 156.9 | 104.3%                  | 2.8%        | 3.0% |
| 1997 | 167.6     | 160.5 | 104.4%                  | 2.4%        | 2.3% |
| 1998 | 170.0     | 163.0 | 104.3%                  | 1.4%        | 1.6% |
| 1999 | 173.5     | 166.6 | 104.1%                  | 2.1%        | 2.2% |
| 2000 | 179.4     | 172.2 | 104.2%                  | 3.4%        | 3.4% |
| 2001 | 184.4     | 177.1 | 104.1%                  | 2.8%        | 2.8% |
| 2002 | 188.2     | 179.9 | 104.6%                  | 2.1%        | 1.6% |
| 2003 | 193.5     | 184.0 | 105.2%                  | 2.8%        | 2.3% |
| 2004 | 200.2     | 188.9 | 106.0%                  | 3.5%        | 2.7% |
| 2005 | 207.5     | 195.3 | 106.2%                  | 3.6%        | 3.4% |

U.S. Department of Labor. Bureau of Labor Statistics

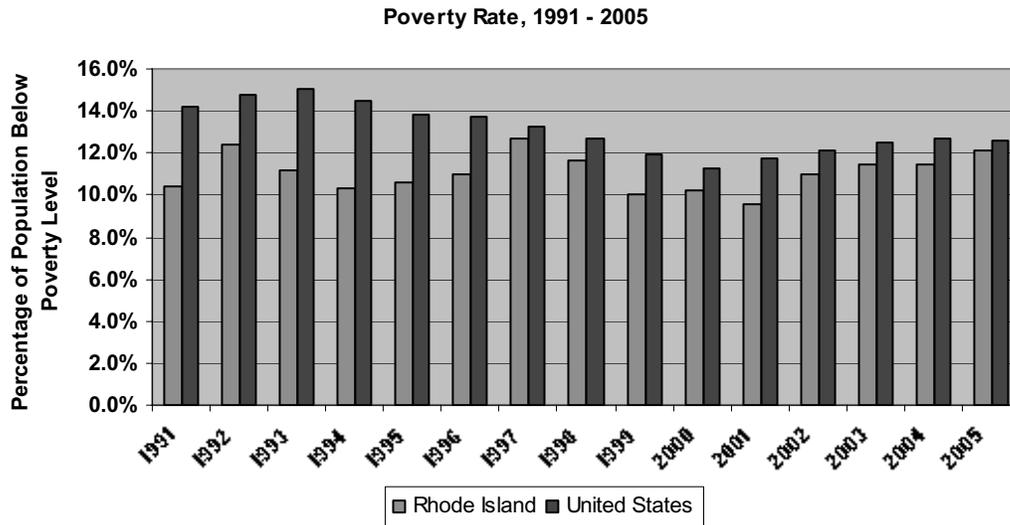
**Poverty.** From 1991 – 2005 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1991 and 2005, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.6 percent in 2001 to a high of 12.7 percent in 1997. During the same time, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in the 2002, 2003 and 2005 periods, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1991 through 2005.

Poverty Rate, 1991 - 2005

| Year | R.I. | U.S. | Ratio     | Percentage Change |       |
|------|------|------|-----------|-------------------|-------|
|      |      |      | R.I./U.S. | R.I.              | U.S.  |
| 1991 | 10.4 | 14.2 | 73.2%     | -                 | -     |
| 1992 | 12.4 | 14.8 | 83.8%     | 19.2%             | 4.2%  |
| 1993 | 11.2 | 15.1 | 74.2%     | -9.7%             | 2.0%  |
| 1994 | 10.3 | 14.5 | 71.0%     | -8.0%             | -4.0% |
| 1995 | 10.6 | 13.8 | 76.8%     | 2.9%              | -4.8% |
| 1996 | 11.0 | 13.7 | 80.3%     | 3.8%              | -0.7% |
| 1997 | 12.7 | 13.3 | 95.5%     | 15.5%             | -2.9% |
| 1998 | 11.6 | 12.7 | 91.3%     | -8.7%             | -4.5% |
| 1999 | 10.0 | 11.9 | 84.0%     | -13.8%            | -6.3% |
| 2000 | 10.2 | 11.3 | 90.3%     | 2.0%              | -5.0% |
| 2001 | 9.6  | 11.7 | 82.1%     | -5.9%             | 3.5%  |
| 2002 | 11.0 | 12.1 | 90.9%     | 14.6%             | 3.4%  |
| 2003 | 11.5 | 12.5 | 92.0%     | 4.5%              | 3.3%  |
| 2004 | 11.5 | 12.7 | 90.6%     | 0.0%              | 1.6%  |
| 2005 | 12.1 | 12.6 | 96.0%     | 5.2%              | -0.8% |

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1990 – 2005. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



## Employment

The table below shows Rhode Island Nonfarm Employment for the 1990 to 2005 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

### Rhode Island Non-Farm Employment by Industry, 1990 – 2005

| Year | Construction,<br>Natural Resources<br>& Mining |                   | Manufacturing      |                   | Trade,<br>Transportation<br>& Utilities |                   | Information,<br>Financial Activities,<br>& Business Services |                   | Educational &<br>Health Services |                   | Leisure,<br>Hospitality &<br>Other Services |                   | Government         |                   | Total<br>Nonfarm<br>Employment |                   |
|------|--|-------------------|--------------------|-------------------|---|-------------------|--|-------------------|----------------------------------|-------------------|---|-------------------|--------------------|-------------------|--------------------------------|-------------------|
|      | Number<br>Employed                             | Percent<br>Change | Number<br>Employed | Percent<br>Change | Number<br>Employed                      | Percent<br>Change | Number<br>Employed   | Percent<br>Change | Number<br>Employed               | Percent<br>Change | Number<br>Employed                          | Percent<br>Change | Number<br>Employed | Percent<br>Change | Number<br>Employed             | Percent<br>Change |
| 1990 | 18,700   | -                 | 95,100             | -                 | 77,500                                  | -                 | 79,500   | -                 | 66,200                           | -                 | 51,900                                      | -                 | 62,500             | -                 | 451,200                        | -                 |
| 1991 | 13,700   | -26.7%            | 87,500             | -8.0%             | 71,000                                  | -8.4%             | 73,100   | -8.1%             | 66,800                           | 0.9%              | 48,600                                      | -6.4%             | 60,900             | -2.6%             | 421,500                        | -6.6%             |
| 1992 | 12,500   | -8.8%             | 84,800             | -3.1%             | 71,100                                  | 0.1%              | 72,300   | -1.1%             | 72,100                           | 7.9%              | 50,900                                      | 4.7%              | 61,200             | 0.5%              | 424,800                        | 0.8%              |
| 1993 | 12,800   | 2.4%              | 83,600             | -1.4%             | 71,200                                  | 0.1%              | 74,700   | 3.3%              | 74,200                           | 2.9%              | 52,100                                      | 2.4%              | 61,400             | 0.3%              | 430,000                        | 1.2%              |
| 1994 | 13,300   | 3.9%              | 82,600             | -1.2%             | 72,400                                  | 1.7%              | 76,200   | 2.0%              | 75,000                           | 1.1%              | 53,100                                      | 1.9%              | 61,700             | 0.5%              | 434,200                        | 1.0%              |
| 1995 | 13,600   | 2.3%              | 80,300             | -2.8%             | 75,600                                  | 4.4%              | 77,600   | 1.8%              | 77,200                           | 2.9%              | 54,600                                      | 2.8%              | 61,300             | -0.6%             | 440,100                        | 1.4%              |
| 1996 | 14,200   | 4.4%              | 77,400             | -3.6%             | 73,600                                  | -2.6%             | 78,300   | 0.9%              | 79,200                           | 2.6%              | 57,700                                      | 5.7%              | 61,300             | 0.0%              | 441,600                        | 0.3%              |
| 1997 | 14,800   | 4.2%              | 76,200             | -1.6%             | 72,900                                  | -1.0%             | 82,500   | 5.4%              | 80,700                           | 1.9%              | 59,600                                      | 3.3%              | 63,200             | 3.1%              | 450,000                        | 1.9%              |
| 1998 | 16,200   | 9.5%              | 74,900             | -1.7%             | 74,700                                  | 2.5%              | 86,800   | 5.2%              | 81,600                           | 1.1%              | 61,000                                      | 2.3%              | 62,900             | -0.5%             | 458,000                        | 1.8%              |
| 1999 | 18,000   | 11.1%             | 72,200             | -3.6%             | 75,700                                  | 1.3%              | 90,000   | 3.7%              | 82,300                           | 0.9%              | 64,000                                      | 4.9%              | 63,400             | 0.8%              | 465,500                        | 1.6%              |
| 2000 | 18,400   | 2.2%              | 71,200             | -1.4%             | 79,600                                  | 5.2%              | 92,900   | 3.2%              | 83,200                           | 1.1%              | 67,100                                      | 4.8%              | 64,400             | 1.6%              | 476,700                        | 2.4%              |
| 2001 | 19,200   | 4.3%              | 67,800             | -4.8%             | 79,300                                  | -0.4%             | 94,000   | 1.2%              | 84,900                           | 2.0%              | 68,000                                      | 1.3%              | 65,200             | 1.2%              | 478,400                        | 0.4%              |
| 2002 | 19,600   | 2.1%              | 62,300             | -8.1%             | 80,500                                  | 1.5%              | 93,000   | -1.1%             | 88,000                           | 3.7%              | 70,000                                      | 2.9%              | 66,100             | 1.4%              | 479,400                        | 0.2%              |
| 2003 | 21,000   | 7.1%              | 58,700             | -5.8%             | 80,800                                  | 0.4%              | 94,700   | 1.8%              | 91,000                           | 3.4%              | 72,000                                      | 2.9%              | 66,200             | 0.2%              | 484,300                        | 1.0%              |
| 2004 | 21,200   | 1.0%              | 57,000             | -2.9%             | 80,200                                  | -0.7%             | 98,400   | 3.9%              | 92,900                           | 2.1%              | 73,300                                      | 1.8%              | 65,500             | -1.1%             | 488,500                        | 0.9%              |
| 2005 | 22,200   | 4.7%              | 55,100             | -3.3%             | 80,100                                  | -0.1%             | 100,500  | 2.1%              | 95,300                           | 2.6%              | 73,500                                      | 0.3%              | 65,100             | -0.6%             | 491,600                        | 0.6%              |

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1990 and 1991, total nonfarm employment in Rhode Island declined 6.6 percent. During this time all sectors experienced declines, with the exception of Educational and Health Services, which increased by 0.9 percent. These decreases in employment were the result of the recession that gripped the State and the nation during this time. The economic recovery took hold in Rhode Island in 1992 with nonfarm employment growing by 0.8 percent. This growth in total employment was followed by strong gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the “jobless” recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent then began declining again in 2004 and 2005 at rates of 0.9 percent and 0.6 percent respectively.

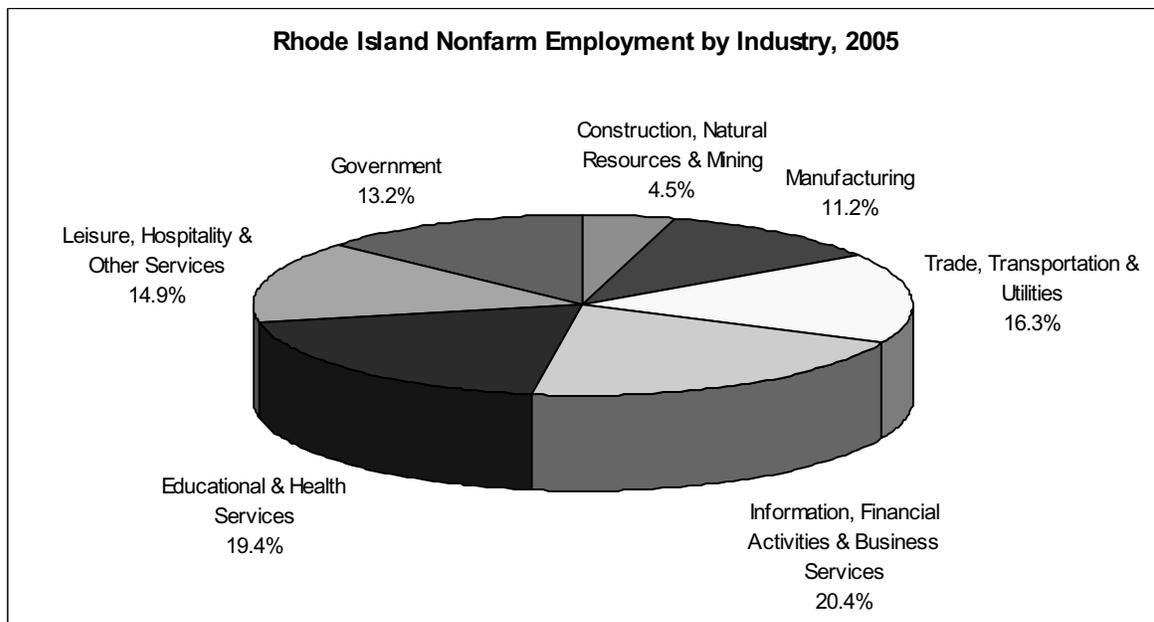
**Non-farm Employment by Industry.** The table below summarizes the changes in Rhode Island employment by sector from 1995 to 2005. Total nonfarm employment increased by 11.7 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 31.4 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 31.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 63.2 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1995 to 2005 period, transforming from a manufacturing based economy to service based economy.

## Rhode Island Non-Farm Employment by Industry, 1995 & 2005

| Employment Sector  | 1995    | % of<br>Total | 2005    | % of<br>Total | % Change<br>1995-2005 |
|--|---------|---------------|---------|---------------|-----------------------|
| <b>Construction, Natural Resources &amp; Mining</b>              | 13,600  | 3.1%          | 22,200  | 4.5%          | 63.2%                 |
| <b>Manufacturing</b>   | 80,300  | 18.2%         | 55,100  | 11.2%         | -31.4%                |
| <b>Trade, Transportation &amp; Utilities</b>                     | 75,600  | 17.2%         | 80,100  | 16.3%         | 6.0%                  |
| <b>Information, Financial Activities &amp; Business Services</b> | 77,600  | 17.6%         | 100,500 | 20.4%         | 29.5%                 |
| <b>Educational &amp; Health Services</b>                         | 77,200  | 17.5%         | 95,300  | 19.4%         | 23.4%                 |
| <b>Leisure, Hospitality &amp; Other Services</b>                 | 54,600  | 12.4%         | 73,500  | 15.0%         | 34.6%                 |
| <b>Government</b>  | 61,300  | 13.9%         | 65,100  | 13.2%         | 6.2%                  |
| <b>Total Employment</b>  | 440,100 | 100.0%        | 491,600 | 100.0%        | 11.7%                 |

R.I. Department of Labor and Training. Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Information, Financial Activities and Business Services sector, with 20.4 percent of the nonfarm work force in 2005, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.4 percent), Trade, Transportation and Utilities (16.3 percent), and Leisure, Hospitality and Other Services employment (15.0 percent).



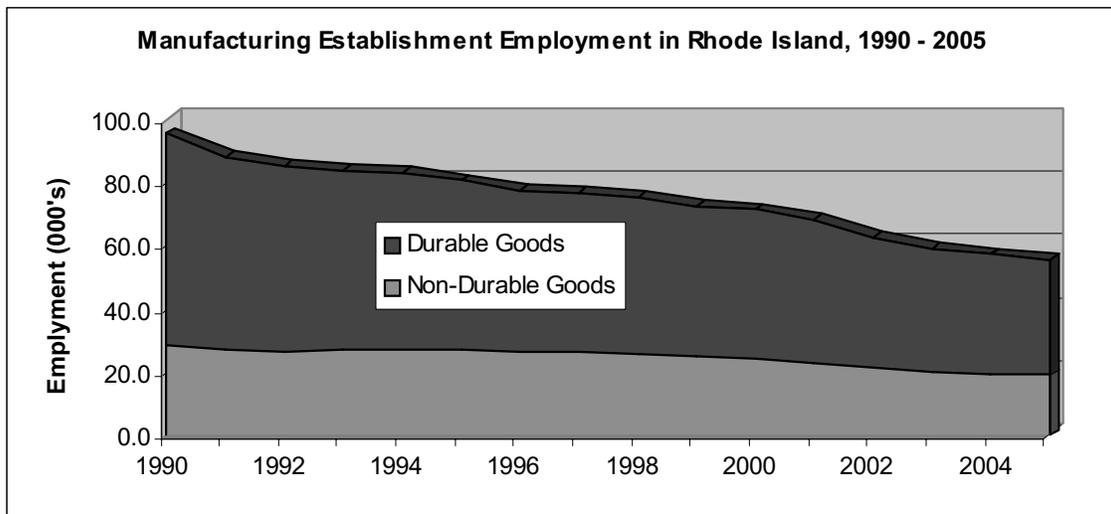
**Manufacturing Employment.** Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1995 and 2005, falling by 31.4 percent over this period. The rate of decline in manufacturing employment began to slow with the onset of the “Y2K expansion” that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 5.8 percent in 2003, 2.9 percent in 2004 and 3.3 percent in 2005, consistent with the overall recovery in the national economy.

**Manufacturing Establishment Employment in Rhode Island, 1995 - 2005**  
(In Thousands)

|                                       | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Non-Durable Goods</b>              | 26.7  | 26.3  | 26.4  | 25.9  | 24.8  | 24.1  | 22.6  | 21.3  | 20.2  | 19.5  | 18.9  |
| Percentage Change                     | -0.7% | -1.5% | 0.4%  | -1.9% | -4.2% | -2.8% | -6.2% | -5.8% | -5.2% | -3.5% | -3.1% |
| <b>Durable Goods</b>                  | 53.7  | 51.1  | 49.8  | 49.0  | 47.3  | 47.1  | 45.2  | 41.0  | 38.5  | 37.5  | 36.2  |
| Percentage Change                     | -3.6% | -4.8% | -2.5% | -1.6% | -3.5% | -0.4% | -4.0% | -9.3% | -6.1% | -2.6% | -3.5% |
| <b>Total Manufacturing Employment</b> | 80.3  | 77.4  | 76.2  | 74.9  | 72.2  | 71.2  | 67.8  | 62.3  | 58.7  | 57.0  | 55.1  |
| Percentage Change                     | -2.8% | -3.6% | -1.6% | -1.7% | -3.6% | -1.4% | -4.8% | -8.1% | -5.8% | -2.9% | -3.3% |

R.I. Department of Labor and Training. Labor Market Information

Employment in the manufacture of non-durable goods, which had declined or remained even in every year since 1990, grew in 1993 and 1997 (at rates of 1.1 percent and 0.4 percent, respectively). Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



**Largest Employers in Rhode Island.** The following table lists, in descending order by employment, the 50 largest employers in Rhode Island for 2005. Together, the top 50 employers employ 121,359 persons, which is approximately 25 percent of the total nonfarm wage and salary employment in Rhode Island.

**Rhode Island's Largest Employers**

| <b>Employed</b> | <b>Employer</b>                                   | <b>Primary Business Activity</b>         |
|-----------------|---|--|
| 14,561          | State of Rhode Island                             | Government                               |
| 10,597          | Lifespan  | Hospital                                 |
| 9,800           | U.S. Government (excluding military)              | Government                               |
| 6,526           | Care New England                                  | Hospital                                 |
| 6,200           | Roman Catholic Diocese of Providence              | Catholic Church                          |
| 5,500           | Citizens Financial Group (Royal Bank of Scotland) | Bank                                     |
| 5,314           | CVS Corporation                                   | Pharmacies                               |
| 4,455           | Stop & Shop Supermarket Co., Inc (Royal Ahold)    | Grocery Stores                           |
| 3,251           | Brown University                                  | University                               |
| 3,240           | Bank of America Corp.                             | Bank                                     |
| 2,383           | RIARC (Total of independent chapters)             | Association for Retarded Citizens        |
| 2,240           | Shaw's Super Markets (Albertsons, Inc.)           | Grocery Stores                           |
| 2,200           | General Dynamics Corp.                            | Ship & Boat Building Mfg.                |
| 2,115           | The Jan Companies                                 | Eating Places                            |
| 2,013           | Metropolitan Life Insurance Co.                   | Insurance                                |
| 1,875           | WAL-Mart  | Retail                                   |
| 1,852           | St. Joseph Health Services of Rhode Island        | Hospital                                 |
| 1,828           | Maxi Drug, Inc.                                   | Pharmacies                               |
| 1,779           | Raytheon Systems Company                          | Nautical Systems & Equipment Mfg.        |
| 1,603           | Memorial Hospital of Rhode Island                 | Hospital                                 |
| 1,600           | Fidelity Investments                              | Investment Services                      |
| 1,440           | The Home Depot                                    | Building Supplies                        |
| 1,340           | Roger Williams Medical Center                     | Hospital                                 |
| 1,300           | Amgen, Inc.                                       | Biotechnology                            |
| 1,290           | Amica Life Insurance Company                      | Insurance                                |
| 1,270           | Johnson & Wales University                        | University                               |
| 1,224           | Cox Communications                                | Communications                           |
| 1,224           | McDonald's  | Eating Places                            |
| 1,210           | American Power Conversion                         | Uninterruptible Power Supplies & Access. |
| 1,175           | Landmark Health System                            | Hospital                                 |
| 1,155           | Verizon   | Communications                           |
| 1,144           | GTECH Corporation                                 | Lottery Systems                          |
| 1,066           | Blue Cross & Blue Shield                          | Medical Insurance                        |
| 1,050           | Sovereign Bank                                    | Bank                                     |
| 1,050           | South County Hospital                             | Hospital                                 |
| 1,050           | Securitas, AB                                     | Security Services                        |
| 1,034           | Hasbro, Inc.                                      | Toy Manufacturing                        |
| 1,000           | United Parcel Service                             | Package Delivery                         |
| 946             | Veterans' Administration Medical Center           | Hospital                                 |
| 990             | Chelo's   | Eating Places                            |
| 989             | Belo Corporation                                  | Publishing                               |
| 900             | Rhode Island of Design                            | College                                  |
| 873             | R.I. Public Transit Authority                     | Public Transit Authority                 |
| 865             | Stanley Bostitch                                  | Building Products                        |
| 856             | Gilbane Building Company                          | Construction                             |
| 840             | Homefront Health Care                             | Health Care                              |
| 810             | Laidlaw, Inc.                                     | Transportation                           |
| 800             | U.S. Security Associates, Inc.                    | Security Services                        |
| 775             | Aramark Services                                  | Diversified                              |
| 761             | Honeywell   | Environmental Control Systems            |

R.I. Economic Development Corporation, Research Division.

**Unemployment.** From 1990 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. With the onset of recession in 1990, this pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1990 and 2005.

**Annual Average Civilian Labor Force and Unemployment, 1990 – 2005**  
(In Thousands)

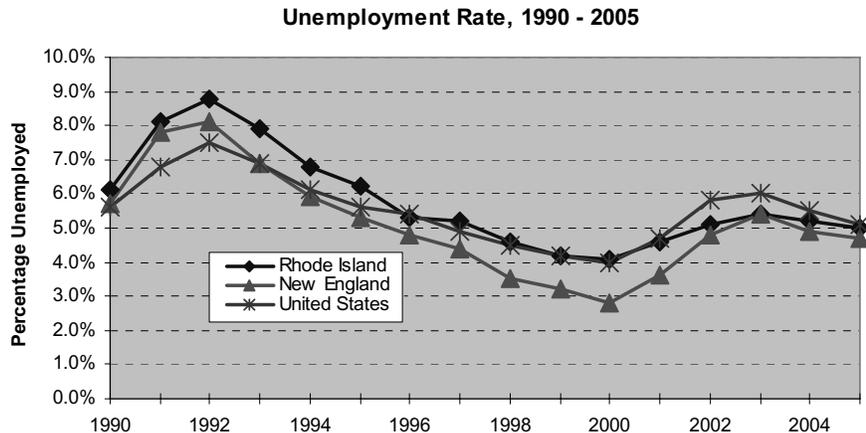
| Year    | Civilian Labor Force |       |         | Unemployed |      |       | Unemployment Rate |      |      | R.I. Rate as a % of U.S. |
|---------|----------------------|-------|---------|------------|------|-------|-------------------|------|------|--------------------------|
|         | R.I.                 | N.E.  | U.S.    | R.I.       | N.E. | U.S.  | R.I.              | N.E. | U.S. |                          |
| 1990(m) | 526                  | 7,128 | 125,840 | 32         | 409  | 7,047 | 6.1%              | 5.7% | 5.6% | 108.9%                   |
| 1991(m) | 523                  | 7,112 | 126,346 | 42         | 558  | 8,628 | 8.1%              | 7.8% | 6.8% | 119.1%                   |
| 1992(m) | 530                  | 7,105 | 128,105 | 47         | 573  | 9,613 | 8.8%              | 8.1% | 7.5% | 117.3%                   |
| 1993(m) | 527                  | 7,062 | 129,200 | 42         | 486  | 8,940 | 7.9%              | 6.9% | 6.9% | 114.5%                   |
| 1994(m) | 516                  | 7,041 | 131,056 | 35         | 415  | 7,996 | 6.8%              | 5.9% | 6.1% | 111.5%                   |
| 1995(m) | 509                  | 7,053 | 132,304 | 31         | 375  | 7,404 | 6.2%              | 5.3% | 5.6% | 110.7%                   |
| 1996(m) | 517                  | 7,118 | 133,943 | 28         | 340  | 7,236 | 5.3%              | 4.8% | 5.4% | 98.1%                    |
| 1997(m) | 532                  | 7,228 | 136,297 | 28         | 315  | 6,739 | 5.2%              | 4.4% | 4.9% | 106.1%                   |
| 1998(m) | 534                  | 7,257 | 137,673 | 24         | 253  | 6,210 | 4.6%              | 3.5% | 4.5% | 102.2%                   |
| 1999(m) | 541                  | 7,327 | 139,368 | 23         | 234  | 5,880 | 4.2%              | 3.2% | 4.2% | 100.0%                   |
| 2000(b) | 543                  | 7,353 | 142,583 | 23         | 203  | 5,692 | 4.1%              | 2.8% | 4.0% | 102.5%                   |
| 2001(b) | 545                  | 7,420 | 143,734 | 25         | 267  | 6,801 | 4.6%              | 3.6% | 4.7% | 97.9%                    |
| 2002(b) | 556                  | 7,515 | 144,863 | 28         | 364  | 8,378 | 5.1%              | 4.8% | 5.8% | 87.9%                    |
| 2003(b) | 568                  | 7,546 | 146,510 | 31         | 409  | 8,774 | 5.4%              | 5.4% | 6.0% | 90.0%                    |
| 2004(b) | 562                  | 7,517 | 147,401 | 29         | 368  | 8,149 | 5.2%              | 4.9% | 5.5% | 94.5%                    |
| 2005(b) | 569                  | 7,551 | 149,320 | 29         | 353  | 7,591 | 5.0%              | 4.7% | 5.1% | 98.0%                    |

U.S. Department of Labor. Bureau of Labor Statistics

(m) Reflects new modeling approach and reestimation as of March 2005. (R.I. & N.E. only)

(b) Reflects revised population controls and model reestimation through 2005. (RI & NE only)

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1990 - 2005 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



**Unemployment Compensation Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

### Economic Base and Performance

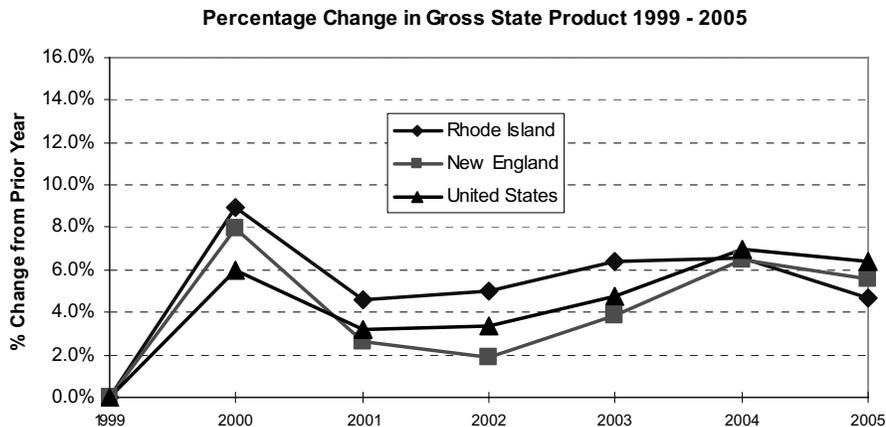
From 2000 – 2003, growth in Rhode Island Gross State Product (GSP) was greater than GSP growth in the United States. For 2004, Rhode Island GSP growth fell behind that of the United States. During the 2000 – 2004 period, Rhode Island GSP growth exceeded that of New England as well. In 2005, the gap widened between Rhode Island GSP growth and United States GSP growth while New England GSP growth overtook that of Rhode Island for the first time in five years. The table below gives the Gross State Product and the annual growth rates for Rhode Island, New England, and the United States over the 1999 – 2005 period.

**Gross State Product, 1999 – 2005**  
(Millions of Current Dollars)

| Year | Rhode Island |        | New England |        | United States |        |
|------|--------------|--------|-------------|--------|---------------|--------|
|      | GSP          | Change | GSP         | Change | GSP           | Change |
| 1999 | 31,019       | -      | 526,249     | -      | 9,201,137     | -      |
| 2000 | 33,835       | 9.1%   | 568,212     | 8.0%   | 9,749,104     | 6.0%   |
| 2001 | 35,489       | 4.9%   | 584,487     | 2.9%   | 10,058,156    | 3.2%   |
| 2002 | 37,040       | 4.4%   | 596,017     | 2.0%   | 10,412,244    | 3.5%   |
| 2003 | 39,363       | 6.3%   | 620,136     | 4.0%   | 10,923,849    | 4.9%   |
| 2004 | 41,921       | 6.5%   | 664,181     | 7.1%   | 11,649,827    | 6.6%   |
| 2005 | 43,791       | 4.5%   | 690,690     | 4.0%   | 12,402,967    | 6.5%   |

Bureau of Economic Analysis, U.S. Department of Commerce

The graph below plots the percentage change in GSP for Rhode Island, New England, and the United States over the 1999 - 2005 period. It demonstrates that from 2000 to 2003, Rhode Island's GSP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GSP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



**Economic Base and Performance -- Sector Detail.** The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island real Gross State Product (GSP) of several industrial and non-industrial sectors.

**Gross State Product by Industry in Rhode Island, 1999 – 2004**  
(Millions of Dollars)

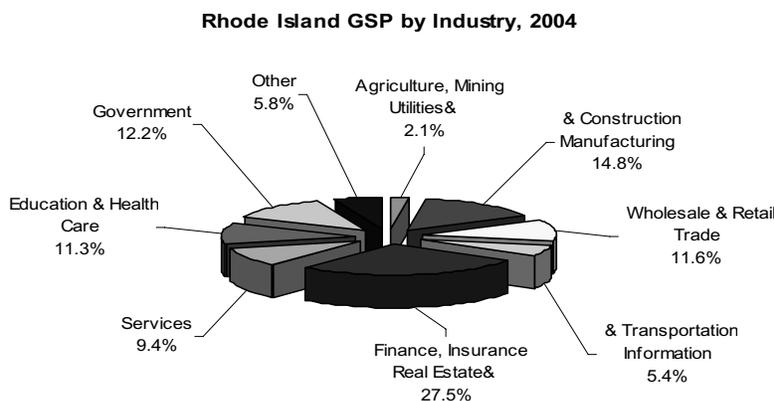
| <b>Industrial Sector</b>                                 | <b>1999</b>   | <b>2000</b>   | <b>2001</b>   | <b>2002</b>   | <b>2003</b>   | <b>2004</b>   |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Agriculture, forestry, fishing and hunting               | 43            | 40            | 85            | 85            | 93            | 96            |
| Mining   | 10            | 10            | 11            | 14            | 12            | 12            |
| Utilities  | 653           | 760           | 731           | 683           | 719           | 735           |
| Construction   | 1,763         | 1,808         | 1,978         | 2,100         | 2,376         | 2,459         |
| Manufacturing  | 3,844         | 4,042         | 3,910         | 3,856         | 3,859         | 4,006         |
| Wholesale Trade  | 1,639         | 1,713         | 1,742         | 1,873         | 1,990         | 2,062         |
| Retail Trade   | 1,971         | 2,157         | 2,252         | 2,560         | 2,687         | 2,746         |
| Transportation and warehousing, excluding postal service | 537           | 569           | 530           | 566           | 630           | 644           |
| Information  | 1,094         | 1,100         | 1,259         | 1,292         | 1,459         | 1,720         |
| Finance and insurance                                    | 3,350         | 4,480         | 4,854         | 4,854         | 5,267         | 5,795         |
| Real estate, rental and leasing                          | 4,069         | 4,338         | 4,803         | 4,983         | 5,118         | 5,421         |
| Professional and technical services                      | 1,678         | 1,750         | 1,823         | 1,891         | 2,063         | 2,198         |
| Management of companies and enterprises                  | 573           | 644           | 523           | 535           | 820           | 838           |
| Administrative and waste services                        | 759           | 807           | 826           | 814           | 837           | 954           |
| Educational services                                     | 625           | 680           | 714           | 768           | 810           | 848           |
| Health care and social assistance                        | 2,805         | 2,852         | 3,061         | 3,381         | 3,588         | 3,798         |
| Government   | 3,821         | 4,140         | 4,319         | 4,565         | 4,715         | 4,945         |
| Other  | 1,785         | 1,945         | 2,068         | 2,220         | 2,320         | 2,402         |
| <b>Total GSP</b>   | <b>31,019</b> | <b>33,835</b> | <b>35,489</b> | <b>37,040</b> | <b>39,363</b> | <b>41,679</b> |

Bureau of Economic Analysis, U.S. Department of Commerce

As is apparent from the table, Rhode Island has experienced strong growth in all sectors except Utilities, Manufacturing and Transportation. All but these exceptions grew by over 24.0 percent from 1999 to 2004. The Agriculture, Mining and Finance & Insurance sectors grew the most markedly, all at over 63.0 percent during the 1999 – 2004 period. During this same period, the Manufacturing sector stagnated while the Utilities sector attained a growth rate of 17.0 percent.

**Gross State Product by Industry in Rhode Island**

The pie chart below shows the share of total Gross State Product in 2004 attributable to each of the industry sectors noted above.



**Finance, Insurance and Real Estate.** This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contribution to total GSP has grown from 23.8 percent of GSP in 1999 to 27.5 percent of GSP in 2004. In 2004, F.I.R.E. accounted for \$11.5 billion of total gross state product of \$41.8 billion. For the period 1999 – 2004 this sector expanded by a respectable 56.9 percent.

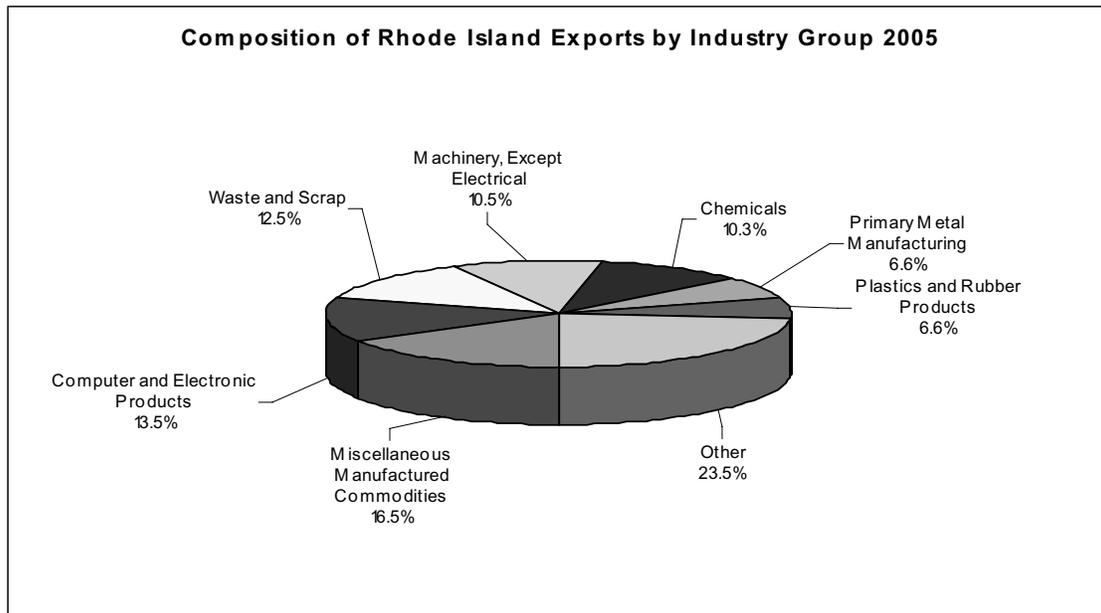
**Construction and Manufacturing.** In 2004, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.2 billion, or 14.8 percent of the total Gross State Product. This sector increased by 12.8 percent from the 1999 level although it decreased in percent contribution to GSP. In 1999, Construction and Manufacturing comprised a slightly larger piece of GSP at 17.8 percent of the total.

**Government.** At 12.2 percent of GSP in 2004, the Government sector has grown slowly and steadily since 1999. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GSP in 2004 than it did in 1999. In 1999, the Government sector accounted for 12.4 percent of GSP. The growth rate in 2000 was 8.3 percent, in 2001 it was 4.3 percent, in 2002 it was 6.9 percent, in 2003 it was 5.7 percent, and in 2004 it was 4.4 percent. In 2004, the Government sector contributed \$5.1 billion to total gross state product.

**Services.** Services consists of professional and technical services, management services, administrative and waste services, as well as other non-government services. Since 1999, Services have remained an integral sector accounting for 26.5 percent of Rhode Island's GSP in 2004. From 1999 to 2004, Services have grown by 33.7 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 2002 was \$1.1 billion. This represented 3.0 percent of Rhode Island Gross State Product of \$37.0 billion. By 2004, Rhode Island's exports increased to \$1.3 billion, or 3.1 percent of Rhode Island Gross State Product.



The most important exports, as shown in the pie chart above, were miscellaneous manufactured commodities (16.5 percent), computer and electronic products (13.5 percent), waste and scrap (12.5 percent), machinery, except electrical (10.5 percent) and chemicals (10.3 percent).

The table below provides greater detail of Rhode Island exports by industry for the 2002-2005 periods.

**Rhode Island Exports by Industry, 2002 – 2005**  
(In thousands of dollars)

|   | 2002      | 2003      | 2004      | 2005      |
|---|-----------|-----------|-----------|-----------|
| <b>Total All Industries</b>                             | 1,121,005 | 1,177,475 | 1,286,324 | 1,268,589 |
| Miscellaneous Manufactured Commodities                  | 141,823   | 153,774   | 203,171   | 208,824   |
| Computer and Electronic Products                        | 205,962   | 258,505   | 254,324   | 171,883   |
| Waste and Scrap   | 144,788   | 127,122   | 157,435   | 158,092   |
| Machinery, Except Electrical                            | 107,672   | 122,495   | 128,390   | 133,527   |
| Chemicals   | 126,029   | 123,247   | 122,716   | 130,464   |
| Primary Metal Manufacturing                             | 89,841    | 61,791    | 70,252    | 84,330    |
| Plastics and Rubber Products                            | 75,055    | 90,561    | 83,045    | 83,600    |
| Electrical Equipment, Appliances and Component          | 40,686    | 56,904    | 51,387    | 56,096    |
| Fabricated Metal Products, NESOI                        | 34,200    | 40,391    | 52,316    | 45,481    |
| Transportation Equipment                                | 20,624    | 18,073    | 30,687    | 44,073    |
| Textiles and Fabrics                                    | 31,929    | 32,108    | 31,162    | 35,914    |
| Fish - Fresh, Chilled or Frozen & Other Marine Products | 16,772    | 18,349    | 17,653    | 24,823    |
| Paper   | 23,090    | 20,130    | 17,243    | 17,360    |
| Food and Kindred Products                               | 8,831     | 4,892     | 11,096    | 16,416    |
| Printing, Publishing and Similar Products               | 6,965     | 5,073     | 8,159     | 13,377    |
| Special Classification Provisions, NESOI                | 9,129     | 6,938     | 7,619     | 8,367     |
| Textile Mill Products                                   | 7,451     | 10,151    | 9,019     | 7,824     |
| Nonmetallic Mineral Products                            | 13,997    | 11,102    | 10,567    | 7,297     |
| Furniture and Fixtures                                  | 3,217     | 4,368     | 7,254     | 5,611     |
| Agricultural Products                                   | 805       | 406       | 304       | 3,223     |
| Apparel and Accessories                                 | 2,819     | 2,214     | 3,005     | 3,163     |
| Leather and Allied Products                             | 2,624     | 2,115     | 2,060     | 2,309     |
| Minerals and Ores                                       | 356       | 1,024     | 1,235     | 1,529     |
| Petroleum and Coal Products                             | 466       | 1,180     | 1,264     | 1,332     |
| Wood Products   | 716       | 1,108     | 863       | 1,209     |
| Used or Second-Hand Merchandise                         | 1,706     | 631       | 1,312     | 827       |
| Goods Returned to Canada (Exports Only); U.S. Goods     | 2,397     | 2,017     | 1,416     | 800       |
| Forestry Products, NESOI                                | 973       | 670       | 1,035     | 405       |
| Prepackaged Software                                    | 0         | 36        | 165       | 223       |
| Livestock and Livestock Products                        | 82        | 94        | 170       | 166       |
| Beverages and Tobacco Products                          | 0         | 6         | 0         | 40        |
| Oil and Gas   | 0         | 0         | 0         | 4         |

(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 1991 the number of housing permits authorized in Rhode Island declined by 19.5 percent. In 2005, the number of housing permits authorized increased by 18.8 percent in Rhode Island, compared to an increase of only 1.5 percent for New England and an increase of 6.3 percent for the United States.

### Housing Permits Authorized, 1990– 2005 (Seasonally Adjusted)

| Year | Rhode Island  |                | New England   |                | United States |                |
|------|---------------|----------------|---------------|----------------|---------------|----------------|
|      | Total Permits | Percent Change | Total Permits | Percent Change | Total Permits | Percent Change |
| 1990 | 3,177         | -              | 38,148        | -              | 1,124,000     | -              |
| 1991 | 2,557         | -19.5%         | 30,396        | -20.3%         | 946,000       | -15.8%         |
| 1992 | 2,644         | 3.4%           | 37,000        | 21.7%          | 1,099,000     | 16.2%          |
| 1993 | 2,618         | -1.0%          | 39,765        | 7.5%           | 1,208,000     | 9.9%           |
| 1994 | 2,516         | -3.9%          | 39,976        | 0.5%           | 1,367,000     | 13.2%          |
| 1995 | 2,291         | -8.9%          | 37,386        | -6.5%          | 1,337,000     | -2.2%          |
| 1996 | 2,355         | 2.8%           | 39,999        | 7.0%           | 1,420,000     | 6.2%           |
| 1997 | 2,729         | 15.9%          | 42,306        | 5.8%           | 1,442,000     | 1.5%           |
| 1998 | 2,654         | -2.7%          | 47,919        | 13.3%          | 1,619,000     | 12.3%          |
| 1999 | 3,235         | 21.9%          | 47,378        | -1.1%          | 1,662,000     | 2.7%           |
| 2000 | 2,657         | -17.9%         | 43,763        | -7.6%          | 1,600,000     | -3.7%          |
| 2001 | 2,404         | -9.5%          | 42,916        | -1.9%          | 1,639,000     | 2.4%           |
| 2002 | 2,596         | 8.0%           | 47,292        | 10.2%          | 1,750,000     | 6.8%           |
| 2003 | 2,435         | -6.2%          | 48,401        | 2.3%           | 1,890,000     | 8.0%           |
| 2004 | 2,532         | 4.0%           | 56,118        | 15.9%          | 1,996,000     | 5.6%           |
| 2005 | 3,007         | 18.8%          | 56,945        | 1.5%           | 2,121,000     | 6.3%           |

U.S. Department of Commerce. Construction Statistics Division  
Federal Reserve Bank of Boston

The strongest sector of the state's economy has been housing. A decline in existing home sales in Rhode Island in 1991 (-5.2 percent) was followed by rapid sales growth for 1992 and 1993. The current boom in housing in Rhode Island commenced in 1996 and was sustained up to 2000. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 8.2 percent. In 1998 alone, they shot up 19.5 percent. Following this period of rapid growth, existing home sales decreased by 5.8 percent in 2000. Since then, existing home sales have been erratic.

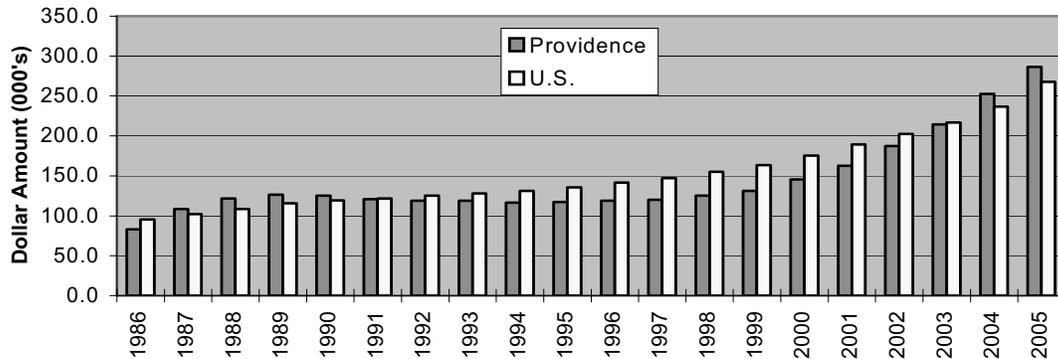
### Existing Home Sales, 1990 - 2005 (In Thousands, SAAR)

| Year | Rhode Island |                | New England |                | United States |                |
|------|--------------|----------------|-------------|----------------|---------------|----------------|
|      | Sales        | Percent Change | Sales       | Percent Change | Sales         | Percent Change |
| 1990 | 9.7          | -              | 134.0       | -              | 3,603.5       | -              |
| 1991 | 9.2          | -5.2%          | 140.5       | 4.9%           | 3,533.3       | -1.9%          |
| 1992 | 11.9         | 29.3%          | 170.6       | 21.4%          | 3,889.5       | 10.1%          |
| 1993 | 13.0         | 9.2%           | 193.8       | 13.6%          | 4,220.3       | 8.5%           |
| 1994 | 13.1         | 0.8%           | 200.3       | 3.4%           | 4,409.8       | 4.5%           |
| 1995 | 13.5         | 3.1%           | 185.7       | -7.3%          | 4,342.3       | -1.5%          |
| 1996 | 14.7         | 8.9%           | 200.7       | 8.1%           | 4,705.3       | 8.4%           |
| 1997 | 15.9         | 8.2%           | 219.4       | 9.3%           | 4,908.8       | 4.3%           |
| 1998 | 19.0         | 19.5%          | 248.3       | 13.2%          | 5,585.3       | 13.8%          |
| 1999 | 20.7         | 8.9%           | 253.3       | 2.0%           | 5,922.8       | 6.0%           |
| 2000 | 19.5         | -5.8%          | 242.0       | -4.5%          | 5,831.8       | -1.5%          |
| 2001 | 20.0         | 2.6%           | 239.6       | -1.0%          | 6,026.3       | 3.3%           |
| 2002 | 19.7         | -1.5%          | 244.5       | 2.0%           | 6,421.3       | 6.6%           |
| 2003 | 20.2         | 2.5%           | 275.6       | 12.7%          | 6,994.3       | 8.9%           |
| 2004 | 19.2         | -5.0%          | 305.3       | 10.8%          | 6,722.8       | -3.9%          |
| 2005 | 19.7         | 2.6%           | n/a         |                | 7,049.3       | 4.9%           |

National Association of Realtors  
Federal Reserve Bank of Boston

On a seasonally adjusted annual rate basis, existing home sales for Rhode Island, New England, and the United States appear in the table above. Note that Rhode Island's housing market has tended to move in-step with the New England housing market, at least until recently. In 2001 and 2002, Rhode Island's housing market moved inversely with that of New England. In 2003, it fell in line once more with the New England housing market but at a less robust level, inverting again in 2004.

### Average Annual Home Prices, 1986 - 2005



Fannie Mae and Freddie Mac; Federal Reserve Bank of Boston

Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 110.8 percent of the US average in 1988, by 1999 they had fallen to 80.5 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices have climbed relative to the U.S. average, attaining parity in 2003. In 2004 and 2005, Providence Metropolitan area home prices rose above the U.S. average and now stand at 107.0 percent of the U.S. level.

### Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of \$554 million, defense related contracts declined 29.6 percent by 1993 to \$390 million. By 1994, the value of defense related contracts had rebounded to \$422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to \$489 million, up 34.0 percent from the previous year and in 2004 contracts declined again by 14.5 percent to \$418 million. In 2005 contracts awarded to Rhode Island remained flat at \$418 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2005. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 3.2 percent of such awards in 2005.

**Department of Defense Contract Awards, 1990 – 2005**  
(In Millions)

| <b>Fiscal Year</b> | <b>R.I.</b> | <b>N.E.</b> | <b>U.S.</b> | <b>R.I. Percentage of New England</b> | <b>R.I. Percentage of U.S.</b> |
|--------------------|-------------|-------------|-------------|---------------------------------------|--------------------------------|
| <b>1990</b>        | 554         | 14,271      | 121,254     | 3.88%                                 | 0.46%                          |
| <b>1991</b>        | 413         | 13,889      | 124,119     | 2.97%                                 | 0.33%                          |
| <b>1992</b>        | 455         | 11,033      | 112,285     | 4.12%                                 | 0.41%                          |
| <b>1993</b>        | 390         | 10,789      | 114,145     | 3.61%                                 | 0.34%                          |
| <b>1994</b>        | 422         | 9,329       | 110,316     | 4.52%                                 | 0.38%                          |
| <b>1995</b>        | 388         | 9,374       | 109,004     | 4.14%                                 | 0.36%                          |
| <b>1996</b>        | 334         | 9,237       | 109,408     | 3.62%                                 | 0.31%                          |
| <b>1997</b>        | 275         | 9,152       | 106,561     | 3.00%                                 | 0.26%                          |
| <b>1998</b>        | 217         | 9,284       | 109,386     | 2.34%                                 | 0.20%                          |
| <b>1999</b>        | 312         | 9,456       | 114,875     | 3.30%                                 | 0.27%                          |
| <b>2000</b>        | 418         | 8,745       | 123,295     | 4.78%                                 | 0.34%                          |
| <b>2001</b>        | 283         | 11,094      | 135,225     | 2.55%                                 | 0.21%                          |
| <b>2002</b>        | 365         | 13,029      | 158,737     | 2.80%                                 | 0.23%                          |
| <b>2003</b>        | 489         | 17,544      | 202,589     | 2.79%                                 | 0.24%                          |
| <b>2004</b>        | 418         | 20,699      | 212,740     | 2.02%                                 | 0.20%                          |
| <b>2005</b>        | 418         | 13,200      | 236,986     | 3.17%                                 | 0.18%                          |

Department of Defense

**Travel and Tourism**

According to the April 2005 Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, travel and tourism revenue broke the four billion-dollar mark, at \$4.6 billion in 2003 and hit \$4.7 billion in 2004. This generated 57,837 jobs (9.6 percent of the State total) and \$1.1 billion in employee compensation (4.7 percent of the State total).

In 2004 an estimated 16 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.9 million spent the day in the State and 5.1 million stayed overnight. An additional 23.7 million travelers “passed through” the state en route to other destinations.

The highest daily expenditures in 2004 were by overnight convention visitors (\$232.75 per day), overnight business visitors (\$231.11 per day), and leisure visitors who stayed in hotels and motels (\$157.76).

Three of the five visitor indicators for 2004 recovered, while two continued to decline. The Newport Bridge Traffic was up 3.2 percent. Lodgings Tax revenues increased by 4.4 percent. Visits to the Newport Mansions were down 6.0 percent, commercial air passengers arriving and departing through T.F. Green Airport were up 6.4 percent, and I-95 Welcome Center Visitors declined by 8.9 percent.

Sales revenues in the travel and tourism industry increased by 3.2 percent in 2004. The retail trade and the transportation sectors had the largest percentage increases in 2004 at 3.4 percent each. Service sector receipts increased by 2.3 percent. The number of firms in the tourism industry grew by 3.0 percent in 2004, while wages increased by 3.4 percent and the number of employees increased by 0.9 percent.

## Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 138.0 percent in 2003-04. For the 2003-04 academic year Rhode Island spent 38.0 percent more on public elementary and secondary education than the United States average: \$12,279 per student compared to a national average of \$8,899 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year.

**Per Pupil Expenditure in Public Elementary and Secondary Schools**  
**Academic Years 1989-90 – 2003-04**  
 (Based on Average Daily Attendance)

| Academic<br>Year | Rhode Island | United States | Ratio<br>(R.I./U.S.) |
|------------------|--------------|---------------|----------------------|
| 1989-90          | 6,368        | 4,980         | 127.9%               |
| 1990-91          | 6,343        | 5,258         | 120.6%               |
| 1991-92          | 6,546        | 5,421         | 120.8%               |
| 1992-93          | 6,938        | 5,584         | 124.2%               |
| 1993-94          | 7,333        | 5,767         | 127.2%               |
| 1994-95          | 7,715        | 5,989         | 128.8%               |
| 1995-96          | 7,936        | 6,147         | 129.1%               |
| 1996-97          | 8,307        | 6,393         | 129.9%               |
| 1997-98          | 8,627        | 6,676         | 129.2%               |
| 1998-99          | 9,049        | 7,013         | 129.0%               |
| 1999-00          | 9,646        | 7,394         | 130.5%               |
| 2000-01          | 10,116       | 7,904         | 128.0%               |
| 2001-02          | 10,552       | 8,259         | 127.8%               |
| 2002-03          | 11,377       | 8,610         | 132.1%               |
| 2003-04          | 12,279       | 8,899         | 138.0%               |

U.S. Department of Education, National Center for Education Statistics

For the 2003-04 academic year, Rhode Island per pupil expenditures was the fourth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

**National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools**  
 Academic Year 2003-04  
 (Based on Average Daily Attendance)

| Ranking  | State                | Expenditure | Ranking | State          | Expenditure |
|----------|----------------------|-------------|---------|----------------|-------------|
| 1        | District of Columbia | 15,414      | 26      | Virginia       | 8,761       |
| 2        | New York             | 13,926      | 27      | Oregon         | 8,640       |
| 3        | New Jersey           | 13,776      | 28      | Colorado       | 8,416       |
| <b>4</b> | <b>Rhode Island</b>  | 12,279      | 29      | Georgia        | 8,278       |
| 5        | Connecticut          | 11,755      | 30      | Washington     | 8,051       |
| 6        | Vermont              | 11,675      | 31      | Missouri       | 8,022       |
| 7        | Massachusetts        | 11,583      | 32      | Iowa           | 8,017       |
| 8        | Alaska               | 11,074      | 33      | Kentucky       | 7,973       |
| 9        | Delaware             | 11,049      | 34      | South Carolina | 7,893       |
| 10       | Maine                | 10,504      | 35      | Louisiana      | 7,846       |
| 11       | Pennsylvania         | 10,393      | 36      | North Dakota   | 7,752       |
| 12       | Wyoming              | 10,351      | 37      | Texas          | 7,711       |
| 13       | Maryland             | 10,140      | 38      | California     | 7,708       |
| 14       | Michigan             | 10,049      | 39      | New Mexico     | 7,653       |
| 15       | Wisconsin            | 9,834       | 40      | South Dakota   | 7,607       |
| 16       | Ohio                 | 9,799       | 41      | Arkansas       | 7,307       |
| 17       | Illinois             | 9,710       | 42      | Florida        | 7,269       |
| 18       | New Hampshire        | 9,391       | 43      | North Carolina | 7,114       |
| 19       | Hawaii               | 9,341       | 44      | Tennessee      | 7,047       |
| 20       | Nebraska             | 9,270       | 45      | Arizona        | 6,898       |
| 21       | West Virginia        | 9,076       | 46      | Alabama        | 6,812       |
| 22       | Indiana              | 9,033       | 47      | Nevada         | 6,780       |
| 23       | Minnesota            | 8,934       | 48      | Mississippi    | 6,601       |
| 24       | Kansas               | 8,804       | 49      | Oklahoma       | 6,599       |
| 25       | Montana              | 8,771       | 50      | Idaho          | 6,559       |
|          |                      |             | 51      | Utah           | 5,427       |

U.S. Department of Education, National Center for Education Statistics

According to the Rhode Island Office of Higher Education, in fall 2005, the total enrollment in Rhode Island institutions of higher education was 81,382 students, up from the 80,377 students reported in fall 2004. Enrollment increased 0.2 percent in the public sector (+88 students) and increased 2.3 percent in the independent sector (+917 students).

From July 1, 2004 to June 30, 2005, Rhode Island institutions of higher education conferred 16,873 degrees and certificates, an increase of 0.6 percent over the 16,778 awards of the previous year. In 2004-2005 public institutions of higher education conferred 5,404 or 32.0 percent of all awards, while independent institutions awarded 11,469 or 68.0 percent.

**APPENDIX B – General Fund Cash Flow Analysis**

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State of Rhode Island  
Office of the General Treasurer  
Summary Cash Flow Analysis  
**FISCAL 2007**

(With actuals through Dec. 6, 2006)

|                                     | July<br>2006       | August<br>2006     | September<br>2006  | October<br>2006    | November<br>2006   | December<br>2006   | January<br>2007    | February<br>2007   | March<br>2007      | April<br>2007      | May<br>2007        | June<br>2007       | TOTAL<br>2007        |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
| Estimated Beginning Balance         | 177,416,022        | 103,433,694        | 70,491,356         | 38,890,180         | 41,800,566         | 9,852,714          | 79,298,114         | 165,332,848        | 87,780,852         | 53,323,049         | 128,844,285        | 76,035,928         | 177,416,022          |
| <b>Receipts:</b>                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                      |
| Taxation / DMV                      | 197,731,614        | 197,662,803        | 262,852,335        | 200,849,299        | 183,768,355        | 200,403,753        | 254,398,107        | 175,797,927        | 297,940,656        | 321,339,329        | 209,678,653        | 346,621,990        | 2,849,044,821        |
| Federal Grants                      | 127,715,383        | 115,286,502        | 118,411,166        | 119,135,120        | 151,771,531        | 153,467,869        | 144,759,893        | 139,489,931        | 173,840,533        | 128,639,013        | 155,272,394        | 180,137,629        | 1,707,926,963        |
| Departmental Receipts               | 28,180,315         | 29,162,446         | 28,907,525         | 29,907,554         | 26,348,499         | 16,977,519         | 17,293,594         | 16,144,552         | 18,595,592         | 17,293,594         | 18,084,211         | 17,855,392         | 264,750,793          |
| Lottery Transfers                   | 0                  | 26,600,000         | 27,599,490         | 46,600,000         | 4,700,000          | 25,000,000         | 25,000,000         | 25,000,000         | 26,000,000         | 26,000,000         | 26,000,000         | 62,500,510         | 321,000,000          |
| Other receipts                      | 69,062,784         | 50,908,418         | 43,977,186         | 102,930,172        | 77,245,434         | 131,634,810        | 69,386,054         | 74,394,741         | 65,419,641         | 69,044,163         | 65,687,631         | 109,389,554        | 929,080,588          |
| TANS Drawdown / Interfund Transfers | 0                  | 0                  | 0                  | 0                  | 0                  | 120,000,000        | 0                  | 0                  | 0                  | 0                  | 0                  | 0                  | 120,000,000          |
| <b>Total Cash Available</b>         | <b>600,106,118</b> | <b>523,053,864</b> | <b>552,239,058</b> | <b>538,312,324</b> | <b>485,634,384</b> | <b>657,336,665</b> | <b>590,135,761</b> | <b>596,160,000</b> | <b>669,577,274</b> | <b>615,639,148</b> | <b>603,567,175</b> | <b>792,541,003</b> | <b>6,369,219,188</b> |
| <b>Disbursements:</b>               |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                      |
| Social Programs                     | 156,706,688        | 103,891,436        | 191,025,780        | 115,978,781        | 151,503,649        | 201,076,770        | 115,719,658        | 154,276,820        | 211,542,372        | 114,843,937        | 154,970,847        | 210,116,866        | 1,881,653,603        |
| Payroll / Pension                   | 124,786,154        | 115,452,400        | 112,610,655        | 113,860,453        | 105,059,682        | 154,628,338        | 122,925,476        | 113,625,476        | 113,625,476        | 113,625,476        | 113,625,476        | 153,934,302        | 1,457,759,363        |
| Transfers to other Funds            | 35,196,482         | 51,188,369         | 42,710,777         | 28,641,117         | 30,921,336         | 26,396,854         | 21,368,959         | 21,368,959         | 21,368,959         | 23,045,993         | 23,545,993         | 53,915,601         | 379,669,400          |
| Municipal Payments                  | 68,650,866         | 65,625,072         | 71,763,076         | 129,000,000        | 62,150,000         | 82,558,864         | 106,149,145        | 118,815,670        | 164,477,186        | 136,321,074        | 119,709,460        | 91,466,449         | 1,216,686,863        |
| Debt Service                        | 10,552,400         | 33,406,365         | 6,990,589          | 22,362,526         | 24,127,187         | 3,833,189          | 3,164,697          | 23,850,076         | 3,498,883          | 6,395,795          | 23,308,201         | 7,323,561          | 168,813,468          |
| Check Clearing / Disbursement       | 55,665,341         | 73,914,914         | 73,890,297         | 79,482,986         | 88,714,209         | 45,115,172         | 46,338,684         | 41,557,972         | 42,887,447         | 41,338,684         | 46,213,368         | 39,913,767         | 675,032,841          |
| TANS / TDI Repayment                | 0                  | 0                  | 0                  | 0                  | 0                  | 50,142,466         | 0                  | 0                  | 0                  | 0                  | 0                  | 120,000,000        | 170,142,466          |
| Tax Refund                          | 9,228,269          | 4,328,735          | 6,319,592          | 2,982,098          | 7,870,401          | 9,536,262          | 4,822,259          | 30,816,272         | 54,636,000         | 47,056,000         | 41,940,000         | 25,700,000         | 245,235,888          |
| Other                               | 35,886,224         | 4,755,216          | 8,038,113          | 4,203,798          | 5,435,207          | 4,750,636          | 4,314,034          | 4,067,903          | 4,217,903          | 4,167,903          | 4,217,903          | 6,535,903          | 90,590,742           |
| <b>Total Disbursements</b>          | <b>496,672,424</b> | <b>452,562,507</b> | <b>513,348,879</b> | <b>496,511,759</b> | <b>475,781,670</b> | <b>578,038,551</b> | <b>424,802,913</b> | <b>508,379,148</b> | <b>616,254,225</b> | <b>486,794,863</b> | <b>527,531,247</b> | <b>708,906,450</b> | <b>6,285,584,635</b> |
| <b>Month Ending Cash Position</b>   | <b>103,433,694</b> | <b>70,491,356</b>  | <b>38,890,180</b>  | <b>41,800,566</b>  | <b>9,852,714</b>   | <b>79,298,114</b>  | <b>165,332,848</b> | <b>87,780,852</b>  | <b>53,323,049</b>  | <b>128,844,285</b> | <b>76,035,928</b>  | <b>83,634,553</b>  | <b>83,634,553</b>    |

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**APPENDIX C – Proposed Form of Legal Opinion**

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Date of Delivery

State of Rhode Island  
and Providence Plantations  
State House  
Providence, Rhode Island

Re: \$120,000,000 State of Rhode Island and Providence Plantations  
General Obligation Tax Anticipation Notes Fiscal Year 2007 dated  
December \_\_, 2006 (the "Notes")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Notes. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the General Treasurer including Approval of Governor and Acknowledgment of Approval by the Secretary of State adopted December \_\_, 2006 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Notes are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Notes as the same shall come due.

2. The interest on the Notes is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Notes will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code

may give rise to adverse federal income tax consequences to particular Noteholders. The scope of this paragraph of the opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Notes.

We call your attention to the fact that interest on the Notes may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Note proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Notes from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Notes to become includible in gross income.

We express no opinion regarding other federal tax consequences arising with respect to the Notes.

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

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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