PRIVATE PLACEMENT MEMORANDUM DATED OCTOBER 22, 2010

NEW ISSUE – Book-Entry Only **Ratings: See "Ratings" herein.**

Interest on the 2010 Bonds is includible in income for federal income tax purposes. In the opinion of Moses & Afonso, Ltd., Bond Counsel, except for estate, inheritance, and gift taxes, the 2010 Bonds and the income (including gain from sale or exchange) therefrom shall at all times be free from taxation of every kind by the State of Rhode Island and its municipalities and political subdivisions, although income from the 2010 Bonds may be included in the measure of certain Rhode Island corporate and business taxes.

$75,000,000
RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
Job Creation Guaranty Program
Taxable Revenue Bonds
(38 Studios, LLC Project), Series 2010

Dated: Date of Delivery **Due: November 1, 2020**

The Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 (the "2010 Bonds") are being issued by the Rhode Island Economic Development Corporation (the "Issuer") pursuant to Chapters 026/029 of the Rhode Island Public Laws of 2010 (the "Act"), the Rhode Island Economic Development Corporation Act, Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Issuer Act"), the Loan and Trust Agreement (the "Agreement") dated as of November 1, 2010 by and among the Issuer, 38 Studios, LLC (the "Company") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and resolutions passed by the Issuer's board of directors on June 14, 2010 and July 26, 2010 authorizing the issuance of the 2010 Bonds (the "Resolutions").

The 2010 Bonds will only be issued as fully registered bonds under a book-entry only system. The 2010 Bonds will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2010 Bonds. Purchases of beneficial interests in the 2010 Bonds will be made in book-entry only form, in minimum denominations of $100,000 and in increments of $5,000 in excess thereof. Purchasers will not receive certificates representing their interest in 2010 Bonds purchased by them. The 2010 Bonds will be dated the date of delivery. Interest on the 2010 Bonds will be payable on May 1, 2011 and semiannually thereafter on the 1st day of November and May of each year at the rates as shown in the maturity schedule on the inside cover. The 2010 Bonds are due November 1, 2020 and subject to mandatory sinking fund redemptions as provided herein. So long as DTC, or its nominee Cede & Co., is the owner, principal and semiannual interest payments will be made directly to such owner. Principal of and interest on the 2010 Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., as Paying Agent (the "Paying Agent") to DTC. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. The scheduled payment of principal of and interest on the 2010 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2010 Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.). **The 2010 Bonds are subject to optional, mandatory and extraordinary redemptions as described herein.**

The 2010 Bonds are being issued by the Issuer under the Issuer Act and in connection with the Job Creation Guaranty Program created under the Act in order to promote the retention and expansion of businesses and the creation of jobs in the State of Rhode Island (the "State"). The proceeds of the 2010 Bonds will be loaned by the Issuer to the Company for the purpose of financing (i) the relocation of the Company's corporate headquarters and primary place of business to the State and (ii) the establishment and operation by the Company of a video gaming studio in the City of Providence, Rhode Island, including, but not limited to costs and expenses related to the development of assets associated with role playing video gaming and massively multiplayer games, and the development of specific products to be used for such purposes, (iii) the funding of the Capital Reserve Fund and the Capitalized Interest Fund as provided in the Agreement, and (iv) paying costs of issuance of the 2010 Bonds (the "Project").

The 2010 Bonds are being issued in reliance upon exemptions contained in Regulation D to the Securities Act of 1933, as amended (the "1933 Act"). The 2010 Bonds are being offered by this Private Placement Memorandum to "accredited investors" within the meaning of Rule 501(a) of the 1933 Act. Each prospective purchaser of the 2010 Bonds is responsible for assessing the merits and risks of an investment in the 2010 Bonds and must be able to bear the economic risk of such investment in the 2010 Bonds. Moreover, each purchaser of the 2010 Bonds, by purchasing the 2010 Bonds agrees that (a) its purchase of the bonds is for its own account, or as a fiduciary for others, for the purposes of investment and not with a view to resale or other distribution, (b) the purchaser has received this Private Placement Memorandum, (c) the purchaser is sufficiently knowledgeable and experienced in financial and business matters so as to be capable of evaluating the merits and risks of the investment represented by the purchase of the 2010 Bonds, and is capable of making its own investigation of the Issuer, the Company and the 2010 Bonds, and (d) the purchaser will execute an investor letter in the form of Appendix E hereto.

The 2010 Bonds are special and limited obligations of the Issuer. The 2010 Bonds are payable from, and secured by, among other things, loan payments by the Company to the Issuer, certain property and interest in the Trust Estate, Gross Receipts of the Company, amounts on deposit in the Capital Reserve Account, Sinking Fund, Capitalized Interest Account and Program Account, and by certain appropriations made by the State, all as set forth in the Agreement.

THE 2010 BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL OR LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE 2010 BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS FOR DEPOSIT INTO THE CAPITAL RESERVE FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

The 2010 Bonds are offered for delivery when, as, and if issued, subject to the final approving opinion of Moses & Afonso Ltd., Bond Counsel, Providence, Rhode Island, and to certain other conditions referred to herein. Certain legal matters in connection with the 2010 Bonds will be passed upon by Pannone Lopes Devereaux & West LLC, Providence, Rhode Island, as Counsel to the Placement Agents. Certain legal matters will be passed on for the State by its Disclosure Counsel, Taft & McSally LLP, Cranston, Rhode Island, for the Issuer by its General Counsel, Adler Pollock & Sheehan P.C., Providence, Rhode Island, for the Trustee by its counsel, Bernstein, Shur, Sawyer & Nelson, P.A., Portland, Maine, and for the Company by its counsel Edwards Angell Palmer & Dodge LLP. FirstSouthwest, Lincoln, Rhode Island, is serving as financial advisor for the Issuer on this transaction. It is expected that the 2010 Bonds in definitive form, will be available for delivery to DTC, New York, New York, on or about November 2, 2010.

Wells Fargo Securities **Barclays Capital**

$75,000,000

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

Job Creation Guaranty Program
Taxable Revenue Bonds
(38 Studios, LLC Project), Series 2010

$23,685,000 6.000% Term Bond due November 1, 2015. Price 100%. CUSIP No. 762236DY0.

$8,860,000 6.750% Serial Bond due November 1, 2016. Price 100%. CUSIP No. 762236DX2.

$42,455,000 7.750% Term Bond due November 1, 2020. Price 100%. CUSIP No. 762236DW4.

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

Board of Directors

His Excellency Donald L. Carcieri, Chairman
Alfred J. Verrecchia, Vice-Chairman
J.L. Lynn Singleton, Treasurer
Stephen Lane
Dr. David Dooley
Dr. Timothy Babineau
Paul J. Choquette, Jr.
Donna C. Cupelo
George H. Nee
Cheryl W. Snead
Shivan S. Subramaniam
Dan Sullivan
Karl Wadensten

Senior Management

Keith Stokes, Executive Director
J. Michael Saul, Deputy Director
Susan Morgan, Director of Finance and Accounting
Robert I. Stolzman, Esq., Secretary

38 STUDIOS, LLC

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Martha H.W. Crowninshield
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William C. Thomas, Chief Operating Officer
Thomas J. Zaccagnino

Visionary Team

Curtis M. Schilling, Chairman and Founder
Todd McFarlane, Artistic Visionary
R. A. Salvatore, Creator
Ken Rolston, Senior Designer

Senior Management

Jennifer MacLean, Chief Executive Officer
William C. Thomas, Chief Operating Officer
Richard O. Wester, Chief Financial Officer
Michela Denise Kaigler, Chief Marketing Officer
Gavian Whishaw, Studio General Manager
Jonathan A. Laff, Chief Technology Officer

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General Counsel to the Issuer
Adler Pollock & Sheehan P.C., Providence, Rhode Island

Disclosure Counsel to the State
Taft & McSally LLP, Cranston, Rhode Island

Counsel to the Placement Agents
Pannone Lopes Devereaux & West LLC, Providence, Rhode Island

Counsel to the Trustee
Bernstein, Shur, Sawyer & Nelson, P.A., Portland, Maine

Counsel to the Company
Edwards Angell Palmer & Dodge LLP, Providence, Rhode Island

Financial Advisor to the Issuer
FirstSouthwest, Lincoln, Rhode Island

This Private Placement Memorandum does not constitute an offer to sell the 2010 Bonds or a solicitation of an offer to buy the 2010 Bonds from any person in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person to whom it is unlawful to make such an offer or solicitation. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than information and representations contained herein, in connection with the offering of the 2010 Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the State, the Issuer or the Placement Agents.

The information set forth herein has been obtained from the Issuer, the Company, the State and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. This Private Placement Memorandum contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representation of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Private Placement Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the State or the Company since the date hereof.

Upon issuance, the 2010 Bonds will not be registered under the Securities Act of 1933, as amended (the "1933 Act"), in reliance upon exemptions contained in Regulation D to the 1933 Act. The 2010 Bonds will not be listed on any stock or other securities exchange. The 2010 Bonds will be offered to "accredited investors" within the meaning of Rule 501(a) promulgated under the 1933 Act. The 2010 Bonds are subject to restrictions on resale and transferability under federal and state securities laws, and purchasers may not transfer or resell the 2010 Bonds except as provided under applicable federal and state securities laws or pursuant to proper registration or exemption therefrom. Any registration or qualification of the 2010 Bonds in accordance with applicable provisions of securities laws of the states in which the 2010 Bonds may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy of the Private Placement Memorandum or approved the 2010 Bonds for sale. Any representation to the contrary may be a criminal offense. Upon issuance of the 2010 Bonds, the Agreement will not be qualified under the Trust Indenture Act of 1939, as amended (the "1939 Act").

THE PLACEMENT AGENTS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THE PRIVATE PLACEMENT MEMORANDUM. THE PLACEMENT AGENTS HAVE REVIEWED THE INFORMATION IN THIS PRIVATE PLACEMENT MEMORANDUM IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE PLACEMENT AGENTS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

Certain statements included or incorporated by reference in this Private Placement Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the United State Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "project," "budget," or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE COMPANY" or "THE PROJECT" herein.

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 ISSUER, THE STATE AND THE COMPANY DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

The information relating to The Depository Trust Company ("DTC") and the book-entry only system contained in this Private Placement Memorandum have been furnished by DTC (see "THE 2010 BONDS - Book-Entry Only System" herein). No representation is made by the Issuer as to the adequacy or accuracy of such information. The Issuer has not made any independent investigation of the DTC or its book-entry only system.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("Assured Guaranty") makes no representation regarding the 2010 Bonds or the advisability of investing in the 2010 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Private Placement Memorandum or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE" and "Appendix G – Specimen Municipal Bond Insurance Policy."

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE FINANCING PROGRAM	3
Sources and Uses of Proceeds of the 2010 Bonds	3
The Job Creation Guaranty Program and Anticipated Future Issuance of Bonds	3
THE 2010 BONDS	4
General Description	4
Record Date	4
Authorization and Purpose of the 2010 Bonds	5
Book-Entry Only System	5
Redemption Prior to Maturity	7
BOND INSURANCE	8
The Insurance Policy	8
The Insurer	9
SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS	10
Nature and Obligations and Authority	10
Loan Payments and Other Obligations of the Company	11
Grant of Security Interests	12
Assignment and Pledge of the Issuer	12
Capitalized Interest Fund	13
Sinking Fund	13
Project Fund	13
Capital Reserve Fund	13
Appropriations from the General Assembly	14
DEBT SERVICE REQUIREMENTS FOR THE 2010 BONDS	14
THE RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION	15
General	15
Directors and Officers	15
Other Indebtedness	17
History of Capital Reserve Fund Indebtedness	17
Other Guarantees	18
38 STUDIOS, LLC	18
Company Overview	18
Conversion to "C" Corporation/Establishment of Rhode Island Entity	19
Company Products	19
Sales and Marketing Strategy	20
Future Markets	21
Commitments, Contingencies and Outstanding Debt Obligations	21
Company Visionaries	22
Senior-Level Company Management	23
Company Board of Directors	24
Litigation	26
Auditor Report	26
THE PROJECT	26
General Background	26
Relocation of the Company	27
Lease	27
Third-Party Monitoring	27
Project Milestones	28
Full-Time Jobs Covenant	28
INVESTMENT CONSIDERATIONS	29
FORWARD-LOOKING STATEMENTS	32
LITIGATION	32
TAX MATTERS	33
COVENANT BY THE STATE	33
CONTINUING DISCLOSURE	33
CERTAIN LEGAL MATTERS	33
FINANCIAL ADVISOR	33
RATINGS	34
PRIVATE PLACEMENT AGENT	34
PRIVATE PLACEMENT OF THE 2010 BONDS	34
MISCELLANEOUS	34

APPENDIX A—Information Statement of the State of Rhode Island and Providence Plantations dated June 30, 2010.
Exhibit A – Audited Financial Statements of the State for Fiscal Year ending June 30, 2009.
Exhibit B – State Economic Information
APPENDIX B—Summary of Certain Provisions of the Agreement
APPENDIX C—Proposed Forms of Continuing Disclosure Agreements
Exhibit A – Proposed Form of Rhode Island Economic Development Corporation Continuing Disclosure Agreement
Exhibit B – Proposed Form of 38 Studios, LLC Continuing Disclosure Agreement
APPENDIX D—Proposed Form of Opinion of Bond Counsel
APPENDIX E—Proposed Form of Investor Letter
APPENDIX F—Copy of the Job Creation Guaranty Program Act
APPENDIX G—Specimen Municipal Bond Insurance Policy

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PRIVATE PLACEMENT MEMORANDUM

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

Relating to

$75,000,000

Job Creation Guaranty Program
Taxable Revenue Bonds
(38 Studios, LLC Project), Series 2010

INTRODUCTION

This Private Placement Memorandum (including the cover page, inside cover page and Appendices attached hereto) provides certain information in connection with the issuance by the Rhode Island Economic Development Corporation (the "Issuer") of its Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 (the "2010 Bonds"), in the aggregate principal amount of $75,000,000, to be issued pursuant to the Loan and Trust Agreement (the "Agreement") dated as of November 1, 2010 between the Issuer, 38 Studios, LLC (the "Company") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The 2010 Bonds are also being issued pursuant to Chapters 026/029 of the Rhode Island Public Laws of 2010 (the "Act"), the Rhode Island Economic Development Corporation Act, Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Issuer Act"), and resolutions passed by the Issuer's board of directors on June 14, 2010 and July 26, 2010 authorizing the issuance of the 2010 Bonds (the "Resolutions"). The 2010 Bonds are special and limited obligations of the Issuer payable solely from and secured by, among other things, loan payments by the Company to the Issuer, certain property and interests in the Trust Estate, Gross Receipts of the Company, amounts on deposit in funds created by the Issuer, and by certain appropriations made by the State, all as set forth by the Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS" herein.

Under the Agreement, the Issuer is authorized to issue the 2010 Bonds subject to the terms and conditions of the Agreement. The proceeds of the sale of the 2010 Bonds will be loaned by the Issuer to the Company, a limited liability company organized and existing under the laws of Delaware, subject to the Company meeting certain covenants and conditions as described more particularly in the Agreement. Proceeds from the sale of the 2010 Bonds will be used to finance (i) the relocation of the Company's corporate headquarters and primary place of business to the State, (ii) the establishment and operation by the Company of a video gaming studio in the City of Providence, Rhode Island, including, but not limited to costs and expenses related to the development of assets associated with role playing video gaming and massively multiplayer games, and the development of specific products to be used for such purposes, (iii) the funding of the Capital Reserve Fund and the Capitalized Interest Fund as provided in the Agreement, and (iv) paying costs of issuance of the 2010 Bonds (the "Project"). Under the Agreement, the Company will be obligated to make certain payments of the loan into a Principal and Interest Account created within a Sinking Fund established by the Issuer for the purpose of paying the sinking fund requirements of the 2010 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS," "THE COMPANY," "THE PROJECT" and "THE 2010 BONDS" herein.

Simultaneously with the issuance of the 2010 Bonds and in accordance with the Agreement, the Issuer will establish for the benefit of the owners of the 2010 Bonds (i) a Capitalized Interest Fund which will be equal to the Capitalized Interest Amount (as defined herein) and (ii) a Capital Reserve Fund which will be equal to the Minimum Capital Reserve Fund Requirement (as defined herein). Under the Agreement, moneys in the

Capitalized Interest Account shall be applied to the amounts necessary to pay interest on the 2010 Bonds for those interest payment dates commencing May 1, 2011 through and including November 1, 2012. Moneys deposited into the Capital Reserve Fund on the date of delivery shall be used in the event the Company defaults on its Loan Payments to the Issuer and the amounts on deposit in the Principal and Interest Account are not sufficient to pay principal and interest to owners of the 2010 Bonds when due. The Capital Reserve Fund shall be restored annually to the Minimum Capital Reserve Fund Requirement in accordance with the Agreement subject to appropriations made by the General Assembly of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS" herein.

The Act, the Issuer Act and the Agreement require the Issuer's Executive Director to deliver by December 1st of each year to the Governor of the State a certificate stating the sum, if any, required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement. The Act requires the Governor to include such amount, if any, in his or her budget request for appropriation by the General Assembly. In addition, should the Company fail to make additional Loan Payments subsequent to the Executive Director's delivery of the certificate on each December 1, the Executive Director is required to update, by amended certificate delivered to the Governor and the State budget office on the 15th day of each month thereafter, the additional sum needed to restore the Capital Reserve Fund. In the event any Loan Payments required to be made by the Company are not received by the Trustee subsequent to November 1 of each year, the Executive Director shall deliver a certificate to the Governor to request that the General Assembly make a supplemental budget appropriation for the full amount of the May 1 payment next due. Under the Agreement, the Issuer has covenanted to comply with the provisions of the Act and the Issuer Act relating to the making and delivery by the Executive Director of the requisite certificate to the Governor and to deposit any requested monies received from the State pursuant to the Act and the Issuer Act into the Capital Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS" herein.

THE 2010 BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL OR LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE 2010 BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS FOR DEPOSIT INTO THE CAPITAL RESERVE FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

This Private Placement Memorandum describes the terms of, security for, and guaranty of the 2010 Bonds and the use of the proceeds of the 2010 Bonds. Also included are summaries of certain provisions of the Agreement and provisions of the Act and the Issuer Act, as well as an overview of the Company and the Project. These descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the definitive forms thereof, all references to the Act and the Issuer Act, are qualified their entirety by reference to the complete statutes, regulations and published interpretations by State officials, and all references to the 2010 Bonds are qualified by the forms thereof contained in the Agreement and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Agreement may be obtained as set forth under "MISCELLANEOUS" herein.

All capitalized terms used in this Private Placement Memorandum and not otherwise defined herein have the meanings set forth in the Agreement. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

THE FINANCING PROGRAM

Sources and Uses of Proceeds of the 2010 Bonds

The Issuer is issuing the 2010 Bonds to pay for the Project, to fund an initial deposit into the Project Fund, to deposit an amount equal to the Minimum Capital Reserve Fund Requirement into the Capital Reserve Fund, to deposit an amount equal to the Capitalized Interest Amount into the Capitalized Interest Account, and to pay the costs of issuing the 2010 Bonds. The sources and uses of the proceeds of the 2010 Bonds are as follows:

Sources:	
Par Amount of Bonds	$75,000,000.00
Total Sources	$75,000,000.00
Uses:	
Deposit to Project Fund	$49,799,010.42
Deposit to Capital Reserve Fund	12,749,912.50
Deposit to Capitalized Interest Account	10,604,076.63
Costs of Issuance	650,000.00
Placement Agents' Discount	634,065.00
Municipal Bond Insurance	562,935.45
Total Uses	$75,000,000.00

The Job Creation Guaranty Program and Anticipated Future Issuance of Bonds

In the 2010 Session, the General Assembly of the State passed legislation establishing the Job Creation Guaranty Program, Chapters 026/029 of the Rhode Island Public Laws of 2010. As part of the Job Creation Guaranty Program, the General Assembly authorized the Issuer to issue up to $125,000,000 in bonds to create a loan guaranty and bond program pursuant to which it will be able to guaranty loan payments either directly or through the issuance of bonds in order to induce lending to companies growing their employment in the State. The 2010 Bonds are the first issuance of bonds under the Job Creation Guaranty Program and after the issuance of the 2010 Bonds, the Issuer will have approximately $50,000,000 remaining for issuance under the Job Creation Guaranty Program. The Issuer expects to issue up to $50,000,000 in additional bonds for other projects under the Job Creation Guaranty Program.

Under the Job Creation Guaranty Program, the Issuer is providing a guaranty of payments due on the 2010 Bonds, subject to annual appropriation by the General Assembly. In order to assure any payments due on guarantees or bond obligations issued by the Issuer in connection with the program and to assure the continued operation and solvency of the Issuer for the carrying out of its corporate purposes: (i) the Issuer is required create a reserve fund from which shall be charged any and all expenses of the Issuer with respect to guarantee or bond obligations of the corporation pursuant to the Act resulting from a program borrower's default (the "Program Account" as defined in the Agreement); and (ii) the Issuer is required to credit to the Program Account no less than fifty percent (50%) of all program receipts of the Issuer including guaranty fees, premiums and any other receipts or recoveries from collections received pursuant to the Issuer's rights to recover payments as a guarantor; and (iii) to the extent the Issuer's obligations as a guarantor or pursuant to its bond obligations are not satisfied by amounts in the Program Account, the Executive Director of the Issuer is required to annually, on or before December 1st, make and deliver to the Governor of the State a certificate stating the minimum amount, if any, required for the Issuer to make payments due on such guarantees. During each January session of the General Assembly, the Governor is required to submit to the General Assembly, as part of the Governor's budget, the total of such sums, if any, required to pay any and all obligations of the

corporation under such guarantees or bond obligations pursuant to the terms of the authorization. All sums appropriated by the General Assembly for that purpose, and paid to the corporation, if any, shall be utilized by the Issuer to make payments due on such guarantees or bond obligations. Any recoveries by the Issuer of guarantee payments are to be returned to the Program Account and utilized to reduce any obligation of the State pursuant to any guarantees entered into by the Issuer. See "APPENDIX F – Copy of the Job Creation Guaranty Program Act" herein.

The Agreement also authorizes the Issuer, in its sole discretion, to issue one or more series of additional bonds which may be issued by the Issuer and authenticated and delivered upon original issuance for the purposes of refinancing or redeeming the 2010 Bonds ("Additional Bonds"). Such Additional Bonds are authorized by the Agreement so long as (i) the Agreement is still in effect and (ii) the amount on deposit in the Capital Reserve Fund (prior to the issuance of the Additional Bonds) is not less than the Minimum Capital Reserve Fund Requirement.

THE 2010 BONDS

General Description

The 2010 Bonds will be issued only as fully registered bonds in minimum denominations of $100,000 and in increments of $5,000 in excess thereof. The 2010 Bonds will be dated the date of delivery and will bear interest at the rates shown on the inside front cover page hereof.

Interest on the 2010 Bonds will be payable on May 1, 2011 and semi-annually thereafter on the 1st day of November and May of each year at the rates shown in the schedule on the inside front cover page hereof. The 2010 Bonds are due November 1, 2020 and are subject to mandatory sinking fund redemptions as provided herein.

When issued, the 2010 Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2010 Bonds. Purchases of the 2010 Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their interest in the 2010 Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the 2010 Bonds. See "THE 2010 BONDS - Book-Entry Only System" herein.

Principal of and interest on the 2010 Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as Paying Agent to DTC. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. Interest on the 2010 Bonds is computed on the basis of a 360-day year consisting of twelve 30-day months.

For every transfer and exchange of the 2010 Bonds, whether in certificated form or otherwise, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. Adequate indemnification may be required to replace any lost, stolen or destroyed 2010 Bonds, whether in certificated form or otherwise.

Record Date

The Record Date for each payment of interest on the 2010 Bonds is the close of business on the fifteenth day preceding such interest payment date or, if such day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

Authorization and Purpose of the 2010 Bonds

The 2010 Bonds are issued pursuant to the Agreement. The 2010 Bonds are also being issued pursuant to the Act, the Issuer Act and the Resolutions. The proceeds of the 2010 Bonds will be loaned to the Company as part of the Job Creation Guaranty Program and will be used to finance the Project.

Book-Entry Only System

This section describes how ownership of the 2010 Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2010 Bonds are to be paid to and credited by DTC while the 2010 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Private Placement Memorandum. The Issuer believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Issuer cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2010 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2010 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Private Placement Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2010 Bonds. The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each series of the 2010 Bonds in the principal amounts of such issue, and will be deposited with DTC.

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

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic

statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry only system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding the 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds issued are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2010 Bonds, and redemption proceeds, will be made to Cede & Co., or such other nominee as may be required by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent/Registrar on payable dates 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 in 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 Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be required by an authorized representative of DTC is the responsibility of the Issuer, 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 securities depository with respect to the 2010 Bonds at any time by giving reasonable notice to the Issuer and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2010 Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Private Placement Memorandum. In reading this Private Placement Memorandum it should be understood that while the 2010 Bonds are in the Book-Entry Only System, references in other sections of this Private Placement Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the 2010 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System, and (ii) except as described above, notices that are to be given to registered owners will be given only to DTC.

Information is this section concerning DTC and the Book-Entry Only System has been obtained from sources that the Issuer believes to be reliable but neither the Issuer nor the Placement Agents take any responsibility for the accuracy thereof.

Redemption Prior to Maturity

Optional Redemption. The 2010 Bonds are subject to redemption prior to their stated maturity dates at the option of the Issuer, in whole or in part, on any date at a redemption price equal to the greater of:

(1) the issue price set forth on the inside cover hereof (but not less than 100% of the principal amount) of such 2010 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2010 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2010 Bonds are to be redeemed, discounted to the date on which such 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 35 basis points, plus, in each case, accrued interest on such 2010 Bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular 2010 Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two (2) Business Days, but not more than forty-five (45) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2010 Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Mandatory Sinking Fund Redemption. The 2010 Bonds shall be subject to mandatory sinking fund redemption on November 1, 2015 in part through sinking fund installments by lot or in any customary manner of selection on November 1 of each year, commencing November 1, 2013 at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date thereof in the principal amounts shown below:

Year	Amount
2013	$7,440,000
2014	7,885,000
2015†	8,360,000

†Final Maturity.

The 2010 Bonds shall be subject to mandatory sinking fund redemption on November 1, 2020 in part through sinking fund installments by lot or in any customary manner of selection on November 1 of each year, commencing November 1, 2017 at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date thereof in the principal amounts shown below:

Year	Amount
2017	$9,455,000
2018	10,190,000
2019	10,980,000
2020†	11,830,000

†Final Maturity.

In addition, a 2016 Serial Bond matures and is payable on November 1, 2016 in the amount of $8,860,000.

Extraordinary Redemption From Unexpended Bond Proceeds. The 2010 Bonds are subject to mandatory redemption, in part, to the extent of any proceeds of the 2010 Bonds remaining on deposit and unexpended in the Project Fund after the elapse of thirty-six (36) months following the date of issuance of the 2010 Bonds. The foregoing redemption must take place within ninety (90) days of the elapse of the foregoing thirty-six (36) month period. The 2010 Bonds to be redeemed shall be selected by lot in the customary manner and shall be redeemed at a redemption price equal to the principal amount of the 2010 Bonds to be redeemed, plus accrued interest thereon, to the redemption date.

Notice of any redemption of 2010 Bonds, specifying the numbers and other designations of 2010 Bonds to be redeemed, shall be given not more than forty-five (45) days nor less than thirty (30) days prior to the date set for redemption by mailing a copy of such notice to DTC or its nominees.

The Issuer, so long as a book-entry only system is used for determining beneficial ownership of the 2010 Bonds, shall send any notice of redemption to DTC, or its nominee, as registered owner of the 2010 Bonds. Transfer of such notice to the DTC Participants is the responsibility of DTC. Transfer of such notice to Beneficial Owners by DTC Participants is the responsibility of the DTC Participants and other nominees of Beneficial Owners of the 2010 Bonds. Any failure of DTC to mail such notice to any DTC Participant, or any failure by any DTC Participant to notify any Beneficial Owner, will not affect the validity of the redemption of the 2010 Bonds. The Issuer can make no assurances that DTC, the DTC Participants or other nominees of the Beneficial Owners of the 2010 Bonds will distribute such redemption notices to the Beneficial Owners of the 2010 Bonds, or that they will do so on a timely basis, or that DTC will act as described in this Private Placement Memorandum.

BOND INSURANCE

The Insurance Policy

Concurrently with the issuance of the 2010 Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("Assured Guaranty," or the “Insurer”) will issue its Municipal Bond Insurance Policy for the 2010 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2010 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or Assured Guaranty is liable for the obligations of Assured Guaranty.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

Assured Guaranty’s financial strength is rated “AA+” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). On February 24, 2010, Fitch, Inc. (“Fitch”), at the request of AGL, withdrew its “AA” (Negative Outlook) insurer financial strength rating of Assured Guaranty at the then current rating level. Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of Assured Guaranty in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On October 25, 2010, S&P published a Research Update in which it downgraded Assured Guaranty’s counterparty credit and financial strength rating from “AAA” (negative outlook) to “AA+” (stable outlook). Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the “AA” (Negative Outlook) insurer financial strength rating of Assured Guaranty at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of Assured Guaranty, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody’s or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on March 1, 2010, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of Assured Guaranty. At June 30, 2010, Assured Guaranty's consolidated policyholders' surplus and contingency reserves were approximately $2,264,680,337 and its total net unearned premium reserve was approximately $2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to Assured Guaranty are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to Assured Guaranty included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the 2010 Bonds shall be deemed incorporated by reference into this Private Placement Memorandum and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding Assured Guaranty included herein under the caption "BOND INSURANCE – The Insurer" or included in a document incorporated by reference herein (collectively, the "Assured Guaranty Information") shall be modified or superseded to the extent that any subsequently included Assured Guaranty Information (either directly or through incorporation by reference) modifies or supersedes such previously included Assured Guaranty Information. Any Assured Guaranty Information so modified or superseded shall not constitute a part of this Private Placement Memorandum, except as so modified or superseded.

Assured Guaranty makes no representation regarding the 2010 Bonds or the advisability of investing in the 2010 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Private Placement Memorandum or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE".

SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS

Nature and Obligations and Authority

Pursuant to the Act, the Issuer Act and the Agreement, the Issuer is authorized to issue the 2010 Bonds. The 2010 Bonds are special and limited obligations of the Issuer and are payable solely from, and secured by, among other things, Loan Payments by the Company to the Issuer, property and interests in the Trust Estate, Gross Receipts of the Company, amounts on deposit in the certain funds created by the Issuer, and certain appropriations made by the State, all as set forth by the Agreement. The 2010 Bonds and the payment of principal and interest thereon are not general obligations of the Issuer. The 2010 Bonds are not obligations,

general, special or otherwise, of the State, do not constitute a debt of the State, are not enforceable against the State, nor shall payment thereof be enforceable out of any monies of the State.

THE 2010 BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL OR LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE 2010 BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS FOR DEPOSIT INTO THE CAPITAL RESERVE FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

Loan Payments and Other Obligations of the Company

Under the Agreement, the Company is required to make certain loan payments to the Issuer which shall be the amount necessary to pay the interest, principal and redemption premiums, if any, due or coming due on the 2010 Bonds. To effectuate these loan payments, the Company is required (i) commencing on November 1, 2012, and on the first day of each month thereafter, to make a loan payment equal to one-sixth (1/6) of the interest due on the 2010 Bonds for the next succeeding interest payment date (i.e., May 1 and November 1) through maturity of the 2010 Bonds and (ii) commencing on November 1, 2013, and on the first day of each month thereafter, to make a loan payment equal to one-twelfth (1/12) of the principal due on the 2010 Bonds for the next succeeding principal payment date (i.e., November 1), into the Principal and Interest Account (as described below) (the "Loan Payments").

In addition to the Loan Payments, the Company, at any time when any principal payment of the 2010 Bonds is overdue, shall also have a continuing obligation to pay to the Trustee for deposit into the Principal and Interest Account an amount equal to interest on the overdue principal but the installment payments shall not otherwise bear interest. If at any time when said loan payments are due the balance in the Principal and Interest Account available for said purpose is insufficient to make such loan payments, the Company will pay to the Trustee (in immediately available funds) any such deficiency. The Company is not required to make any Loan Payments to the extent its application would result in an excess in the Principal and Interest Account over the amounts necessary to meets its obligations when due and payable, plus any additional amounts then required to be maintained in the Sinking Fund.

The Company is also required to make certain additional payments under the Agreement. First, the Company is required to pay the Issuer for reimbursement of any and all, costs, expenses and liabilities reasonably paid or incurred by the Issuer in satisfaction of any obligations of the Company not performed by the Company as required under the Agreement. Second, the Company is required to pay the Issuer on the date of delivery a "commitment fee" of $375,000 (0.50% of the principal amount of the 2010 Bonds). On each May 1, and on the same date each year thereafter, the Company is required to pay an Annual Guaranty Fee equal to 1.50% per annum of the average amount of the 2010 Bonds that are then outstanding for the applicable period in arrears (and deducting any amount in the Prepayment Account) for so long as the 2010 Bonds are outstanding (the "Annual Guaranty Fee"). Third, the Company is required to pay the Issuer for reimbursement or prepayment of any and all costs, expenses and liabilities paid for and incurred by the Issuer with respect to the 2010 Bonds or the Project. Fourth, the Company is required to pay the Issuer on each June 30 starting in 2014 a "deferred fee" equal to twenty-five percent (25%) of the Company's Excess Operating Income (as defined in the Agreement) based upon the Company's audited financial statements for the prior year up to an amount not to exceed $5.0 million per year (the "Deferred Fee") until an aggregate Deferred Fee amount of $15,250,000 has been paid (the "Aggregate Deferred Fee Amount"), and up to $18,800,000 in the event the Aggregate Deferred Fee Amount is not achieved by 2017. In the event the Deferred Fee has not been paid in full when the bonds become due in full, then the unpaid balance of the Deferred Fee shall be due when the bonds become due regardless of the company's Excess Operating Income. Lastly, the Company is required to pay the Trustee on

demand for reimbursement or prepayment of any fees, costs, expenses or liabilities paid or incurred in the performance of the Trustee's duties under the Agreement. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Grant of Security Interests

As security for the Loan Payments, the Company has pledged to the Issuer and the Trustee a security interest in the Trust Estate and in all Gross Receipts of the Company. The Trust Estate, as defined in the Agreement, includes, but is not limited to (i) the Issuer's right to receive the Loan Payments, reimbursements, remedies and expenses under the Agreement, including any amounts pertaining to the Trustee, Paying Agent and bond registrar fees, and the right to receive proceeds from the disposition of property realized under certain Security Documents and the rights of the Issuer to the Gross Receipts; (ii) all funds, moneys and securities from time to time held by the Trustee under the Agreement, including those in the Capital Reserve Fund, the Capitalized Interest Fund, the Sinking Fund and the Project Fund, and any and all property conveyed, pledged, assigned or transferred as and for additional security by the Issuer or the Company under the Agreement; (iii) all rights of the Issuer to payments under the Agreement with respect to compensation due to the Trustee, Payment Agent and bond registrar; and, (iv) all property and amounts of the Company constituting security for repayment of the 2010 Bonds pursuant to the Agreement and Security Documents.

Gross Receipts include all receipts, revenues, income and other moneys received by or on behalf of the Company, including, but not limited to, revenues derived from operations by the Company and from all other projects of the Company, as well as all rights to receive the same whether in the form of accounts, accounts receivable, payment intangibles, contract rights or other rights, and the proceeds of such rights, whether now existing or hereafter coming into existence and whether now owned or hereinafter acquired by the Company. Absent a default by the Company with respect to any of the covenants in the Trust or the existence of any event of default, the Company is not required to deposit Gross Receipts into any "lock box" account and is permitted to use such Gross Receipts in the ordinary course of business.

In connection with the issuance of the 2010 Bonds, the Company has executed certain Security Documents, including, but not limited to: (i) a Security and Pledge Agreement by and between the Company and the Issuer granting security interest in all assets of Company, tangible and intangible; (ii) a Continuing and Unconditional Guaranty of 38 Studios Baltimore, LLC (a subsidiary of the Company) secured by a Guaranty Security and Pledge Agreement granting a security interest in all assets of 38 Studios Baltimore, LLC to secure the Guaranty; (iii) a Continuing and Unconditional Guaranty of Mercury Project, LLC (a subsidiary of the Company and 38 Studios Baltimore, LLC) secured by a Guaranty Security and Pledge Agreement by and between Mercury Project, LLC and the Corporation; (iv) an Assignment of Guaranties and Security Agreements executed by the Corporation in favor of the Trustee and (v) certain Patent Security Agreements and Copyright Mortgages referenced in the foregoing documents, and all documents, instruments, licenses, UCC-1 Financing Agreements and other papers, documents and instruments executed and delivered in connection with the foregoing or to secure repayment of the loan and payment of the Loan Payments. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Assignment and Pledge of the Issuer

As security for the Loan Payments, the Issuer has assigned and pledged to the Trustee, in trust for the security of owners of the 2010 Bonds, title and interest to: (i) the Issuer's right in respect to the loan and the Loan Payments thereon; (ii) all funds, moneys and securities from time to time held by the Trustee for deposit in, or deposited in, the Capital Reserve Fund, the Capitalized Interest Fund, the Sinking Fund and the Project Fund; (iii) the Trust Estate; and, (iv) and all collateral security, including all property, tangible and intangible, of the Company constituting security for repayment of the 2010 Bonds pursuant to the Agreement. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Capitalized Interest Fund

The Agreement provides for the establishment of a Capitalized Interest Fund into which an amount of money equal to the Capitalized Interest Amount shall be deposited from proceeds of sale and delivery of the 2010 Bonds. The Capitalized Interest Amount is a dollar amount equal to the amount required to pay those interest payments due on the 2010 Bonds for those interest payments commencing on May 1, 2011 through and including November 1, 2012. The moneys in the Capitalized Interest Account shall be applied by the Trustee to fund the amounts necessary to pay interest on the 2010 Bonds for those interest payments due commencing May 1, 2011 through November 1, 2012. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Sinking Fund

The Agreement provides for the establishment of a Sinking Fund consisting of three (3) accounts: (i) a "Principal and Interest Account," (ii) a "Redemption Account" and (iii) a "Prepayment Account." The Company shall make the Loan Payments into the Principal and Interest Account. The Redemption Account shall be used to deposit amounts owed to owners of 2010 Bonds in the event of redemption prior to maturity as provided herein. The Prepayment Account shall be used to receive deposits of twenty-five (25%) of Excess Operating Income (as defined in the Agreement) to be paid to the Trustee by the Company and shall be applied to any principal and interest payments due under the Agreement. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Project Fund

The Agreement provides for the establishment of a Project Fund. Monies on deposit in the Project Fund shall be applied to the amounts necessary to pay for the Project. On the date of delivery, the balance of the proceeds of the 2010 Bonds remaining, after the initial deposits are made into the Capitalized Interest Fund and the Capital Reserve Fund (as described below), shall be deposited into the Project Fund and disbursed to the Company in accordance with the requisition schedule set forth in the Agreement and subject to certain milestones the Company must meet as provided in the Agreement and described herein. See "THE PROJECT – Project Milestones" and "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Capital Reserve Fund

The Agreement provides for the establishment of a Capital Reserve Fund which shall be held in trust for the equal and proportionate benefit of the owners of the 2010 Bonds into which shall be deposited on the date of delivery an amount equal to the Minimum Capital Reserve Fund Requirement. In addition, there shall be deposited into the Capital Reserve Fund the amount, if any, appropriated from time to time for the Capital Reserve Fund for the 2010 Bonds by the General Assembly.

Monies in the Capital Reserve Fund are to be utilized by the Trustee in the event the Company fails to make the Loan Payments and the Principal and Interest Account is insufficient to pay owners of 2010 Bonds principal and interest when due. At maturity, the balance of the Capital Reserve Fund will be used to pay the final sinking fund installments due to owners of the 2010 Bonds.

As defined in the Agreement, "Minimum Capital Reserve Fund Requirement" means, as of any particular date of computation, an amount of money, equal to the greatest of the respective amounts, for the current or any fiscal year of the Issuer, of annual debt service on the 2010 Bonds, such annual debt service for any fiscal year of the Issuer being the amount of money equal to the sum of (i) the interest payable during such fiscal year on all the 2010 Bonds outstanding on the date of computation, plus (ii) the principal amount of all

such 2010 Bonds outstanding on said date of computation that mature or are subject to mandatory sinking fund installments. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Appropriations from the General Assembly

The Act, the Issuer Act and the Agreement set forth procedures regarding requests to the General Assembly of the State to appropriate annually an amount of money required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement in the event the Company defaults on loan payments due to the Issuer and monies in the Capital Reserve Fund are used to pay owners of 2010 Bonds principal and interest when due.

Pursuant to the Act, the Issuer Act and the Agreement, the Issuer's Executive Director is required to make and deliver to the Governor of the State, no later than December 1st of each year, a certificate stating the sum, if any, required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement. The sum requested by the Executive Director, if any, shall take into consideration that amount required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement, less the available moneys, if any, on deposit in the "Program Account" (as defined in the Agreement) created by the Issuer. The Governor is required to include such amount, if any, in his or her budget request for appropriation by the General Assembly of the State. In addition, should the Company fail to make additional Loan Payments subsequent to the Executive Director's delivery of the certificate on each December 1, the Executive Director is required to update, by an amended certificate delivered to the Governor and the State budget office on the 15th day of each month thereafter, the additional sum needed to restore the Capital Reserve Fund. In the event any Loan Payments required to be made by the Company are not received by the Trustee subsequent to November 1 of each year, the Executive Director shall deliver a certificate to the Governor to request that the General Assembly make a supplemental budget appropriation for the full amount of the May 1 payment next due. Under the Agreement, the Issuer has covenanted to comply with the provisions of the Act and the Issuer Act relating to the making and delivery by the Issuer's Executive Director of the requisite certificate to the Governor and to deposit any requested monies received from the State pursuant to the Act and the Issuer Act in the Capital Reserve Fund. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

DEBT SERVICE REQUIREMENTS FOR THE 2010 BONDS

The following table shows the debt service requirements for the 2010 Bonds.

Calendar Year	Principal	Interest	Debt Service
2011	-	$5,294,664.13	$5,294,664.13
2012	-	5,309,412.50	5,309,412.50
2013	$7,440,000.00	5,309,412.50	12,749,412.50
2014	7,885,000.00	4,863,012.50	12,748,012.50
2015†	8,360,000.00	4,389,912.50	12,749,912.50
2016††	8,860,000.00	3,888,312.50	12,748,312.50
2017	9,455,000.00	3,290,262.50	12,745,262.50
2018	10,190,000.00	2,557,500.00	12,747,500.00
2019	10,980,000.00	1,767,775.00	12,747,775.00
2020†††	11,830,000.00	916,825.00	12,746,825.00

†Term Bond due on November 1, 2015.
††Serial Bond due on November 1, 2016.
†††Term Bond due on November 1, 2020.

THE RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

General

The Issuer, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, and was created in 1974 under Chapter 64, Title 42 of the Rhode Island General Laws. The Issuer was authorized, created and established as a public corporation, governmental agency and public instrumentality having a distinct legal existence from the State and not constituting a department of State government. The Issuer is empowered, among other things, to issue bonds and to loan or otherwise make available the proceeds thereof to various borrowers in the State, including the Company pursuant to the Issuer Act and the Act, in order to promote the retention and expansion of businesses and creation of jobs in the State.

The Act declares that one of the State's economic development strategies in light of the recent national recession is to continue optimizing its knowledge economy assets, such as the sciences, technology, digital media, innovative manufacturing and other technologies, which require access to capital. Since companies in their growth phases are limited in their ability to obtain reasonable credit without access to credit enhancement, the loan guaranty and bond program created by the Act allows the Issuer to guarantee loan payments directly or through the issuance of its bonds in order to induce lending to companies growing their employment in the State.

The 2010 Bonds are being issued in full compliance with the Issuer Act and the Act. Pursuant to a resolution issued by the Issuer's board of Directors on July 26, 2010, the Issuer is authorized to enter into the Agreement to issue the 2010 Bonds and to secure the 2010 Bonds by, among other things, Loan Payments by the Company to the Issuer, amounts on deposit in the Capital Reserve Fund and by certain appropriations which may be made by the State General Assembly. The General Assembly may, but is not obligated to, appropriate such sums.

The powers of the Issuer are vested in a Board of Directors comprised of twelve (12) members. The Governor also serves as a member of the Board and as chairperson, ex-officio (and, pursuant to the Issuer Act, votes only in the event of a tie). Generally, the members serve for four-year staggered terms. Members serve until the expiration of their appointment to the Board and thereafter until their successors are appointed to the Board and are qualified. The Chairperson designates a Vice Chairperson who serves at the pleasure of the Chairperson. The Executive Director of the Issuer is its Chief Executive Officer. The Board of Directors appoints a Secretary who need not be a member of the Board of Directors. All members serve without compensation but are entitled to reimbursement for necessary expenses incurred in performance of their duties related to the Issuer Act.

Directors and Officers

The Directors and Officers of the Issuer are:

His Excellency Donald L. Carcieri. Governor Carcieri serves as Chairman of the Board of Directors, ex-officio.

Alfred J. Verrecchia. Mr. Verrecchia has been appointed as a member of and Vice-Chairman of the Board of Directors through February 1, 2014 and serves until his successor is appointed and qualified. Mr. Verrecchia is the Chairman of Hasbro, Inc., an international toy company.

J.L. Lynn Singleton. Mr. Singleton has been appointed as a member and Treasurer of the Board of Directors through February 1, 2013 and serves until his successor is appointed and qualified. Mr. Singleton is the President of the Providence Performing Arts Center.

Steven Lane. Mr. Lane serves as the representative of small business on the Board of Directors. His appointment as a member is through February 1, 2014 and he serves until his successor is appointed and qualified. Mr. Lane is co-founder and CEO of Ximedica, a medical devise company.

Dr. David Dooley. Dr. Dooley serves as representative of higher education on the Board of Directors. Dr. Dooley has been appointed as a member of the Board of Directors through February 1, 2013 or until his successor is appointed and qualified. Dr. Dooley is the President of the University of Rhode Island.

Dr. Timothy Babineau. Dr. Babineau has been appointed as a member of the Board of Directors through February 1, 2012 and serves until his successor is appointed and qualified. Dr. Babineau is President and CEO of Rhode Island Hospital and The Miriam Hospital.

Paul J. Choquette, Jr.. Mr. Choquette has been appointed as a member of the Board of Directors through February 1, 2011 and serves until his successor is appointed and qualified. Mr. Choquette is the Vice-Chairman of Gilbane, Inc., a national building company.

Donna C. Cupelo. Ms. Cupelo has been appointed as a member of the Board of Directors through February 1, 2011 and serves until her successor is appointed and qualified. Ms. Cupelo is Region President for Rhode Island and Massachusetts of Verizon Communications.

George H. Nee. Mr. Nee has been appointed as a member of the Board of Directors through February 2, 2012 and serves until his successor is appointed and qualified. Mr. Nee is President of the Rhode Island AFL-CIO.

Cheryl W. Snead. Ms Sneed has been appointed as a member of the Board of Directors through February 1, 2013 and serves until her successor is appointed and qualified. Ms. Snead is the President and CEO of Banneker Industries, Inc., a regional distribution company.

Shivan S. Subramaniam. Mr. Subramaniam has been appointed as a member of the Board of Directors through February 1, 2011 and serves until his successor is appointed and qualified. Mr. Subramaniam is the Chairman and CEO of FM Global, Inc., an international insurance company. Mr. Subramaniam is not related to Mr. Sundar Subramaniam on the Company's Board of Directors.

Dan Sullivan. Mr. Sullivan has been appointed as a member of the Board of Directors through February 1, 2012 and serves until his successor is appointed and qualified. Mr. Sullivan is the President and CEO of Collette Vacations, Inc., a national hospitality company.

Karl Wadensten. Mr. Wadensten has been appointed as a member of the Board of Directors through February 1, 2014 and serves until his successor is appointed and qualified. Mr. Wadensten is the President of VIBCO, a manufacturer of industrial equipment.

The officers of the Issuer are:

Hon. Donald L. Carcieri, Chairman
Alfred J. Verrecchia, Vice-Chairman
J.L. Lynn Singleton, Treasurer
Keith Stokes, Executive Director
J. Michael Saul, Deputy Director
Susan Morgan, Director of Finance and Accounting
Robert I. Stolzman, Esq., Secretary

Other Indebtedness

As of June 30, 2010, the Issuer and its subsidiaries had approximately $1,147,472,153 in bonds outstanding, including $93,972,868 of debt for the former Rhode Island Port Authority and Economic Development Corporation.

History of Capital Reserve Fund Indebtedness

Certain of the bonds of the Issuer other than the 2010 Bonds may be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Issuer for the applicable bond issue. In accordance with the Issuer Act, if at any time the balance in such capital reserve fund falls below its requirement, the Issuer is required to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to appropriate such amounts. Some, but not all, revenue bonds issue by or through the Issuer that are outstanding, are listed below. Neither the 2010 Bonds, nor the Sinking Fund, nor the Capital Reserve Fund created by the Agreement secure the other bonds of the Issuer.

In February 1993, the Issuer 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 Issuer's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Issuer 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 $20.5 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Issuer'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 Issuer 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 Issuer's capital reserve fund. In addition, pursuant to the lease, the Issuer 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 Issuer 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 2009, the State's expenditure for this purpose was $2,554,276, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2009, the outstanding balance was $18,707,829.

In May 2002, the Issuer and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at the Fidelity Managements Resources Site in Smithfield. In connection therewith, the Issuer issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured in part by the Issuer's capital reserve fund. At June 30, 2009, the outstanding balance was $9,000,000.

In November 1997, the Issuer 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 by Fleet National Bank. These bonds are also secured, in part, by the

Issuer's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No such credits have been made to date. At June 30, 2009, the outstanding balance was $9,180,000.

If at any time bonds secured by the Issuer's capital reserve fund (including bonds for Fidelity Management Resources and Fleet National Bank described above) fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency.

Other Guarantees

In December 1999, the Issuer entered into a limited recourse guaranty, not to exceed $3,000,000, in connection with the refinancing by the Employee's Retirement System of Rhode Island ("ERS") of a four-story office building in Providence formerly known as the American Express Building. The Issuer's delivery of the limited recourse guaranty and its cap of $3,000,000 appear to have been utilized to supplement a gap between previously issued debt secured by mortgages on the property and certain appraisals of the property's value at that time. After a series of payment defaults to the ERS, and various creditor actions, in December 2004 Gateway Eight Limited Partnership ("Gateway") filed for bankruptcy protection. Thereafter, legal proceedings resulted in the sale of the American Express Building and various creditor rights actions resulted in a net balance deficiency to the ERS of an amount less than $2,000,000. After the sale of the property and the calculation of the deficiency, the ERS invoked the terms of Issuer's limited recourse guaranty, which, in addition to limiting payment to $3,000,000, limits the obligations of the Issuer to funds received by the General Assembly for this purpose and further limits the Issuer's obligations to request the Governor to submit an appropriation request to the General Assembly for any payment obligation of the Issuer pursuant to the limited recourse guaranty. The Issuer has submitted the appropriations requests to the Governor in accordance with the terms of the limited recourse guaranty annually as requested by the ERS. The Governor has not elected to request the General Assembly to fund the limited recourse guaranty to ERS. Unlike the 2010 Bonds issued pursuant to the Act or other bonds or indebtedness of the Issuer pursuant to the Issuer Act , there is no capital reserve fund to be replenished with respect to the limited recourse guaranty to ERS. Hence, there is no requirement under the Issuer Act that the Governor submit the appropriations request to the General Assembly to fund the Issuer's limited recourse guaranty to ERS.

38 STUDIOS, LLC

Company Overview

38 Studios, LLC, a limited liability company organized and existing under the laws of Delaware, is a development-stage company founded in August 2006 to exploit the anticipated market growth of single and multiplayer online video gaming through the creation of original and intellectual property ("IP") and an interactive entertainment product portfolio. The Company has been driven by a "Visionary Team" that was conceived and implemented by the Company's founder, former Major League Baseball pitcher and avid gamer Curt Schilling, and includes New York Times bestselling fantasy author R.A. Salvatore, award-winning comic book artist and creative talent Todd McFarlane, and video game pioneer game designer Ken Rolston. All are well known for their individual successes and respected in the market the Company is pursuing. The Company currently operates two (2) video game production divisions called "studios." Both studios are staffed with top industry-recognized and experienced talent with proven records of successful, profitable, and on-time delivery of video game products.

Big Huge Games Studio (Timonium, Maryland) - One of the Company's studios, known in the industry as "Big Huge Games" ("BHG") (known now as 38 Studios Baltimore, LLC), is located in Timonium (Baltimore), Maryland, and is working on a single-player multi-platform game. In May of 2009, the Company acquired BHG assets from THQ, Inc. The Baltimore studio currently employs 89 full-time staff and is focused on its first Role Playing Game ("RPG"), *Kingdoms of Amalur: Reckoning*™ ("*Reckoning*"). The release date of

the RPG is scheduled for the fall of 2011. BHG has a track record of releasing successful video games, including the 2003 PC Game of the Year®, *Rise of Nations*.

In March 2010, the Company announced a publishing and distribution agreement with Electronic Arts, Inc. ("EA") for the RPG under which EA has agreed, among other things, to fund, via a third-party loan, budgeted development costs of the RPG through its general commercial release, subject to the Company's achievement of specified milestones. The Company believes that the publishing relationship with EA, which involved significant due diligence, mitigates product success risks substantially through EA's commitment to funding, development support, retail distribution, and marketing of the RPG.

38 Studios (Maynard, Massachusetts) - The Company's other game production studio is located in Maynard, Massachusetts. This studio currently employs 110 full-time staff and is dedicated to the development of the Company's first Massively Multiplayer Online game ("MMO"), code named *Copernicus*™. Consistent with the Company's funding strategy, the Company is in discussions with top publishers regarding a publishing and distribution agreement for the MMO *Copernicus*™, under which the Company anticipates that it would receive advance-funding for development of the game. Consistent with the aforementioned EA deal for the RPG, such publishing and distribution relationships typically do not include equity ownership interests.

The Company currently has an additional 14 corporate full-time staff, 13 of which are housed in the Maynard studio.

The Vision - Together, these studios are developing an original fantasy story that takes place in a vast world over thousands of years.

While the Company is committed to maintaining focus on the release of its first two products, long-term, the Company expects to generate additional revenue streams from ancillary products based on the original products, such as toys, books, comic books, TV shows, movies, and from the creation of new themes of RPG and MMO intellectual properties. The Company has intentionally structured its production processes to be modular, which the Company believes will facilitate the development of future IP and content based on the same themes and characters.

Between the two studios, the executive and development teams boast a combined total of more than 100 years of game development experience at companies including EA, Sony Online Entertainment, and Comcast, and the development teams of both studios have shipped products such as MMOs, RPGs and other genres of games that have generated over $11 billion in sales to date (but this is not attributable to the Company).

The Company is a development stage video game and entertainment company with no revenues and is dependent on the proceeds of the 2010 Bonds for future the development of Project *Copernicus*™.

Conversion to "C" Corporation/Establishment of Rhode Island Entity

As of the date of delivery, the Company is a limited liability company organized under the laws of the State of Delaware. The Company is exploring the possibility of converting to a "C" corporation after the issuance of the 2010 Bonds, pursuant to applicable laws of the State of Delaware, and other state and federal laws. The Company is also exploring the possibility of establishing a Rhode Island entity after the issuance of the 2010 Bonds.

Company Products

Kingdoms of Amalur: Reckoning™ Role-Playing Game. At its Big Huge Games studio, the Company is using its original *Copernicus*™ IP to develop and release a role-playing game for the PlayStation 3®, Xbox 360®, and PC platforms. Originally code-named *Mercury, Reckoning* was formally introduced by the Company

in July 2010 at the Comic-Con entertainment convention in San Diego, California under the title *Kingdoms of Amalur: Reckoning*™.

Reckoning will be a single-player, open-world, "fantasy fiction" RPG designed by Ken Rolston. It combines proven game play elements from the RPG genre with the setting and story of the original IP developed by the Visionary Team.

The Company has signed a publishing and distribution agreement with EA for *Reckoning* under which EA has agreed, among other things, to fund the budgeted, via a third-party loan, development costs of the RPG through its general commercial release. The Company believes that the publishing relationship with EA, which involved significant due diligence, mitigates product success risks substantially through EA's commitment to funding, development support, retail distribution, and marketing of the RPG. The Company currently anticipates the game will become commercially released in the fall of 2011. The agreement with EA is subject to termination for early convenience for payment of a termination fee equal to budgeted cost at the time of termination and a termination penalty.

The *Copernicus*™ Massively Multiplayer Online Game. The Company's Maynard studio is currently developing a MMO, code-named *Copernicus*™, that aims to redefine multiplayer online gaming as it exists today. *Copernicus*™ tells the story of a unique, rich universe under siege; the player begins his or her heroic journey with thousands of other players and must decide between saving the world or destroying it. *Copernicus*™ will include the heroes, storylines, and a distinctive visual style that characterizes the Company's first IP ("*Copernicus*™ IP"). *Copernicus*™ is based on the visionary team's original IP including characters and storyline. In *Copernicus*™, 38 Studios combines proven game design expertise, communications technology, and a multi-product strategy.

The initial target market size for *Copernicus*™ is estimated to be $3.2 billion (net revenue) in North America and $1.6 billion (net revenue) in Western Europe. With the primary platform as the PC and personal computers becoming fixtures in more and more homes around the world, the Company is developing a title that takes advantage of hardware advances while staying within mass-market system specifications that will maximize the potential user base.

Sales and Marketing Strategy

The Company anticipates that its two main revenue streams will consist of retail sales and subscription fees. The Company expects to derive retail sales for the PC, PS3 and Xbox 360 versions of *Kingdoms of Amalur: Reckoning*™, and subscription fees for the PC-based online version of the MMO *Copernicus*™.

The Company expects to establish and maintain strategic partnerships that will allow communication industry technology to blend customers in online and offline works in ways that keep players "in the game" at all times, wherever they are.

The Company expects to establish marketing partnerships with video game publishers, entertainment companies, cable and telecommunication providers, hardware manufacturers, and other companies related to the computer gaming industry, including advertising, affiliation and affinity marketing, and informational and entertainment segments. The Company aims to leverage media relationships with networks and companies such as Reebok, Wilson, ESPN, MSNBC, CNN, FOX and Sports Illustrated to build awareness in global markets and audiences outside traditional gaming demographics.

Publisher relationships play a key role in marketing video games. For *Kingdoms of Amalur: Reckoning*™, EA has will drive the marketing and sales campaigns, utilizing their relationships within the media and retail industries. EA is obligated to expend marketing dollars in an amount customary for game releases of this nature. The Company aims to arrange for significant marketing dollars and energy to be

expended by any exclusive distributor, or publisher, for the MMO *Copernicus*™, as in the *Kingdoms of Amalur: Reckoning*™ partnership with EA.

Future Markets

The long-term goal of the Company is to create original, extensible IP using mass-market games as the launch platform. This platform approach will allow the Company to leverage existing IP and content into other revenue streams. While the Company is committed to maintaining focus on the release of its first two products, long-term, the Company expects to generate additional revenue streams from expansion of these original products, from ancillary products based on the original products, such as toys, books, comic books, TV shows, movies, and from the creation of new themes of RPG and MMO intellectual properties.

The Company is also planning to develop ways to integrate mini-games playable on handheld devices that allow players to stay connected to their characters, participating in social or economic aspects of the games while away from their PC or console. The Company is planning significant pre- and post-launch activities – including the licensing of ancillary products such as: (1) A toy line from McFarlane Toys, (2) Comic books drawn by Todd McFarlane and (3) a prequel book to the story of *Copernicus*™ written by R. A. Salvatore.

The Company anticipates that these activities will allow it to brand its proprietary IP rights and give the *Copernicus*™ IP more exposure and a competitive advantage. Other pre-release activities could include weekly programs or webcasts where Todd McFarlane reveals and discusses concept art, and R. A. Salvatore talks in-depth about the lore and history of the Company's iconic characters. The Company hopes that such activities will provide a stage to allow the Company's story to develop, over time, like the popularity of mass-market fantasy/science fiction properties such as *Star Wars, Lord of the Rings* and *Halo*.

Commitments, Contingencies and Outstanding Debt Obligations

Acquired Intellectual Property – The Company has a contingent, unsecured, liability of $500,000 in connection with the BHG asset acquisition, which may become payable to THQ, Inc. in 2011, and has accrued such expense in its financial statements.

Founding Employee Bonus Plan – The Company is in the process of establishing its Founding Employee Bonus Plan. Under this plan, up to thirty of the Company's original employees will be eligible to receive a bonus of $1 million each, subject to applicable withholding and other taxes, to be paid under certain terms and conditions. Subject to the terms and conditions of such plan, one-half of such bonus will be payable upon the Company achieving a market capitalization of $500 million, and the balance will be payable upon the Company achieving a market capitalization of $1 billion. For purposes of this plan, "market capitalization" shall be as determined in good faith by the Company's Board of Directors and otherwise in accordance with the terms and conditions of such plan. Eligible employees must be active employees and in good standing when the terms and conditions of such plan are satisfied in order to participate in the plan and be entitled to receive a bonus thereunder.

R. A. Salvatore Royalty and Consulting Agreement – The Company has agreed to pay R. A. Salvatore, one of the members of the Company's "Visionary Team," a royalty based on "net receipts" (after deduction of all inception-to-date video game development and IP-related expenses) from *Copernicus*™-related products, including *Reckoning* and the *Copernicus*™ MMO, up to a maximum of $5 million. In addition, the Company has an outstanding unsecured obligation to pay Mr. Salvatore an amount equal to $1.46 million pursuant to a consulting agreement entered into in February 2007, which matures in October 2012.

EA Publishing and Distribution Agreement – In connection with the publishing and distribution agreement with EA, the Company has provided a limited recourse guarantee of repayment in the event the

development costs associated with *Reckoning* exceed the initially budgeted development costs of the game. Under certain circumstances, this guarantee would become a full-recourse guarantee.

Bridge Loan – In July 2010, the Company took out a revolving line of credit in the amount of $2.5 million to finance the ongoing operations of the Company, up to a maximum amount of $4 million. This amount is secured by a personal pledge of the majority Member and Chairman of the Company. The Company anticipates that all or a portion of the proceeds of the 2010 Bonds will be used to pay down the amount outstanding on this line of credit. The Company is currently negotiations with the bank for the extension of the line of credit to satisfy certain "liquid funds" requirements in connection with the Agreement and the Maynard Lease. See "THE PROJECT – Lease" herein.

Other Short Term Indebtedness – The Company issued an unsecured promissory note for cash received from an Officer and Director of the Company, which has a principal amount of $287,000. The maturity of this note was extended to October 30, 2010. In addition, the Company issued an unsecured promissory note in connection with an asset acquisition from a Director of the Company, which has a principal amount of $480,000. This note matured in November 2009, but pursuant to its terms, is not in default and an option to convert the outstanding debt obligation into equity was triggered, but not yet exercised.

Additional Bridge Loan – In September 2010, the Company secured $3 million of additional bridge financing in the form of a one hundred twenty (120) day line of credit in order to fulfill its financing needs through October 2010. This line of credit is a secured obligation of the Company. The Company anticipates that all or a portion of the proceeds of the 2010 Bonds will be used to pay down the amount outstanding on this line of credit.

Company Visionaries

Curtis M. Schilling - Founder, Chairman and Executive Visionary. Mr. Schilling has eight years of interactive entertainment software industry experience, and has participated in MMO development through his long partnership with Sony Online Entertainment. Prior to his retirement from Major League Baseball, Mr. Schilling's leadership was seen on and off the field, and he continues to be a player spokesman and advocate for the baseball profession.

Todd McFarlane - Artistic Visionary. Mr. McFarlane is the creative force behind *Spawn*®, one of the world's most popular comic franchises, and he has sold over 150 million comic books. Mr. McFarlane is also known from his days penciling *Spider-Man*® at Marvel/Epic Comics and for running McFarlane Toys, a multimillion-dollar enterprise that has set the gold standard in the action figure industry. Sought-after by fans and collectors throughout the world, McFarlane Toys are known for their unparalleled detail, likenesses, and poses. Mr. McFarlane's company holds official licenses for action figures for a number of U.S. football, baseball, and basketball players and has partnered with major names in music (KISS, Elvis Presley, Motley Crue, Bon Jovi), television (*Lost*, *24*, *The Simpsons*, *Hanna Barbera*), and feature films (*Alien vs. Predator*, *Tim Burton's Corpse Bride*, *Wallace & Gromit: The Curse of the Were-rabbit*, and *Shrek*).

R. A. Salvatore - Creator of "Worlds". Mr. Salvatore's books regularly appear on the *New York Times* best-seller lists and have sold more than 15 million copies in the U.S. alone. Some of Mr. Salvatore's original works have debuted at #1 on the *Wall Street Journal* best-seller list. His books have been translated into numerous foreign languages, including German, Italian, Finnish, Greek, Hungarian, Turkish, Croatian, Bulgarian, Yiddish, Spanish, Russian, Polish, Czech, and French. One of Mr. Salvatore's most famous, or infamous, stories revolves around his assassination of one of science fiction's most famous and iconic characters in *Vector Prime* (*Star Wars: The New Jedi Order, Book1*).

Ken Rolston - Senior Designer. Mr. Rolston got his start in games through the traditional pen and paper product, from *Dungeons and Dragons* (*D&D*) to *Advanced D&D*, as well as *Warhammer* and *Runequest*. He

was the 1985 winner of the H. G. Wells Award for Best Role-Playing Game, *Paranoia*. Mr. Rolston was the lead designer of *Elder Scrolls III: Morrowind*, as well as *Elder Scrolls IV: Oblivion*. *Elder Scrolls III* won Editor's Choice, PC RPG Game of the Year, and RPG Vault's Game of the Year as well as Gamespy's Game of the Year, GamePro Editor's Choice, and PC Gamer U.S. Editor's Choice. *Elder Scrolls IV* is recognized as the most commercially successful single player RPG ever created. The series has combined to sell well over 9 million copies. *Elder Scrolls IV* won eight different Game of the Year awards and received multiple 5/5 stars and review scores that averaged 94%.

Senior-Level Company Management

Jennifer MacLean, Chief Executive Officer. Ms. MacLean joined 38 Studios from Comcast, where she served for six years most recently as Vice-President and General Manager – Games, responsible for management of all games products, strategy, and business development for the U.S.'s largest cable company. Her extensive and varied experience in online content and interactive entertainment began in 1992 at MicroProse Software. She then joined AOL in 1996, where she held numerous positions in the AOL brand programming division, including programming director for the Games Channel. Ms. MacLean earned a B.A. in international relations from Johns Hopkins University and an M.B.A. with a concentration in international business from the Columbia Business School. Ms. MacLean was named one of the "Game Industry's 100 Most Influential Women" by Next Generation, one of the "Top 20 Women in Games" by Gamasutra magazine, is the former Chair Emeritus of the Board of Directors of the International Game Developers Association, and is a frequently requested speaker at interactive entertainment industry events.

William C. Thomas – Chief Operating Officer. Mr. Thomas brings 33 years of executive and operational experience to the Company. He has set up, developed, and funded operations in the Middle East, Asia, and the United States. As chairman and CEO of Fortune 500 subsidiaries, Mr. Thomas has built and executed strategic-development plans for globalization of financial service organizations, as well as funding medical and environmental services start-up companies. He has served as consultant for such conglomerates as Westinghouse, Lockheed, Boeing, Raytheon, Hyundai, LG Group, Samsung, Daewoo, HSBC, Bechtel, and Texas Instruments; negotiated joint ventures for entertainers like John Denver, Michael Jackson, Tony Bennett, Phil Collins, and the Everly Brothers; and provided leadership for market development, licensing, and trademark for the Malaysian-based American Polo Club USA's penetration of the U.S. market. Mr. Thomas's extensive experience working across cultures as well as at all levels of government and commercial organizations provide him with knowledge of and access to a multitude of financial and operational resources.

Richard O. Wester – Chief Financial Officer. Mr. Wester has more than 18 years of senior-level financial experience in startup and high growth entities, primarily in software and IT services. In addition, prior to his industry experience, Mr. Wester spent 5 years working as a Certified Public Accountant. He continues to maintain his CPA license. Prior experience includes budgeting and planning, fundraising, technical accounting, IPO planning and registration and public company reporting. Prior to joining the Company, Mr. Wester was the Managing Director, Corporate Controller for Exa Corporation, a world-wide provider of fluid dynamics software for the automotive industry. Before that, Mr. Wester was the CFO at C-bridge Internet Solutions, Inc., while it grew from 63 employees with a $5 million revenue run-rate to 700-plus employees with a $100 million annual revenue run-rate. At C-bridge, Mr. Wester also oversaw a successful $74 million IPO. Prior to C-bridge, Mr. Wester was a public company Controller at Computer Telephone Corp, and he has spent time in Controller and VP of Finance positions with other high-growth entities. As CFO at the Company, Mr. Wester oversees all of the Company's internal and external financial affairs, including current and long-term financial planning.

Michela Denise Kaigler – Chief Marketing Officer. Ms. Kaigler is responsible for all of the Company's marketing activities, including internal and external communications, public relations, product strategy, market research, and branding and positioning for the Company as a whole and for all products. In this capacity, she works closely with the development teams. Prior to joining the Company, Ms. Kaigler served as Vice President of Corporate Affairs for Nintendo of America. In that role, she directed Nintendo's corporate communications,

government relations, internal communications, public relations, and entertainment and trend marketing. In addition, Ms. Kaigler has more than 16 years of experience in the athletic and casual footwear and apparel industry, where she held numerous marketing communications positions at Reebok, Rockport and the Adidas Group.

Gavian Whishaw – Studio General Manager (Maynard Studio). Mr. Whishaw has been working in software development for over 10 years. He got his start managing web and IT infrastructure projects in the newspaper industry and in 2001 joined EA as a development director. For EA, he shipped multi-platform titles including *NHL 2002*, *NCAA March Madness 2003*, *NBA Live 2003*, *NCAA March Madness 2004*, *NBA Live 2004* and *NHL 2005*. Taking this education in how to ship high quality, record selling products in short development cycles, he joined Crytek in 2004 with the title of development director. Crytek, based in Germany, is an industry leader in cutting edge gaming technology, and Mr. Whishaw helped ship the critically acclaimed PC title *Crysis* while building new teams and working on new IP. A strong proponent of people-centered management philosophies and systems that create world class entertainment products, Mr. Whishaw joined Company as executive producer and currently covers studio general management functions as well.

Jonathan A. Laff – Chief Technology Officer. With more than a dozen years as an engineer in the video game industry, Mr. Laff has a proven track record in software design and technology leadership. Prior to joining the Company, Mr. Laff was a senior systems engineer and lead engineer at EA's Montreal development house. He played a key role in growing the new studio and in developing its first AAA IP title, *Army of Two*. At EA Los Angeles, Mr. Laff was the lead engineer on *Medal of Honor: European Assault* and the Xbox lead engineer on *Medal of Honor: Rising Sun*. Prior to EA, Mr. Laff served as a lead and senior software engineer at VR-1/Jaleco Entertainment in Colorado, where he worked on MMO products *Lost Continents* and VR-1 *Crossroads*, as well as other online titles including *Ultracorps* and *FighterAce III*. Mr. Laff's extensive experience in the game industry spans a broad array of disciplines including: online and networking, artificial intelligence, animation, audio, game authoring tools, optimization, game play systems, graphics, physics, relational databases and game server architectures. Mr. Laff holds two degrees from the University of Colorado at Boulder: a B.S. in computer science and a B.A. in mathematics.

Company Board of Directors

In addition to the outside members below, the Board of Directors also includes Mr. Schilling, Chairman, Ms. MacLean, CEO, and Mr. Thomas, COO.

Martha H.W. Crowninshield. Ms. Crowninshield is a general partner emeriti of Boston Ventures, an internationally recognized private equity firm with more than $2.5 billion in raised capital spanning seven limited partnership funds. Since 1985, she has been principally involved in investing in the entertainment and leisure markets. Her track record of success includes such recognized names as Motown Record Company, Six Flags Entertainment Corporation, Billboard Publications, Inc., and USA Cinemas (now Loews). She is a member of the Board of Fellows at Harvard Medical School and Founding Co-Chair of the Harvard NeuroDiscovery Center council. Her financial support and business advice are credited at Harvard Medical School as critical for the launch of the International MS Genetics Consortium where she serves on its Board of Directors. Ms. Crowninshield also has brought her business and leadership skills to her considerable efforts as a philanthropist. She was a driving force with the United Way in encouraging large individual donors to support targeted initiatives for programs including economic literacy and entrepreneurship for girls. As an overseer of the Boston Symphony Orchestra and the Huntington Theater Company in Boston, her work focused on introducing the arts into the broader community with a special focus on education and participation for children. She is also involved in national and international initiatives to improve access to capital – both intellectual and financial – for women and people of color. A former member of the Executive Committee of the Simmons College Corporation and the Executive Committee of C200, she has received many local and national awards of recognition for her business and philanthropic leadership. Ms. Crowninshield received her M.B.A. from Simmons College Graduate School of Business and currently serves as Chair of Indaba Music.

James F. Halpin. Mr. Halpin is the President and owner of River Bend Inc., a private investment company. Prior to starting his own firm in 2000, Mr. Halpin served as President and CEO of CompUSA for seven years. During his tenure at CompUSA, he was named one of the "top 25 managers in the world" by Business Week in 1998. Mr. Halpin also served as President of HomeBase and BJ's Wholesale Club. Mr. Halpin was also a director of Marvel Entertainment and Life Time Fitness. He was Chairman of the Compensation Committees at both Marvel and Life Time Fitness. In addition, he was a member of the Strategic Planning Committee at Marvel and the Finance Committee at Life Time Fitness. Mr. Halpin formerly served on the boards of Access and Posse, nonprofit organizations offering educational assistance to urban youth. Mr. Halpin has guest lectured at Harvard Business School, Massachusetts Institute of Technology, Babson College, Columbia University, and the Wharton School. Jim is Chairman of the Company's Compensation Committee.

Douglas Macrae. Mr. Macrae began his career in videogames in 1981 when he founded General Computer in Cambridge, Massachusetts. Within a few years the company grew to over a hundred employees designing arcade and home games for Atari and Bally / Midway. Between original games and arcade conversion to home systems, General Computer was responsible for versions of *Ms. Pac-Man, Centipede, Galaxians, Galaga, Asteroids, Joust, Robotron, Pole Position, Jungle Hunt, Xevious, Berserk, Desert Falcon, Dig Dug, Ballblazer, Jr. Pac-Man Kangaroo, Moon Patrol, Food Fight, Phoenix, Quantum, Rubik's Cube, Realsports Tennis, Track & Field, and Vanguard*. In 1993, he founded a new company, VideoGuide, to design interactive program guides. In 1996, VideoGuide was merged into Gemstar; in 2000 Gemstar acquired TV Guide. Mr. Macrae became President of TV Guide Consumer Electronics with offices in Boston, Los Angeles, London, Luxemburg, Hong Kong, and Tokyo. After retiring in 2005, Mr. Macrae became an avid *World of Warcraft* player, spending many hours of quality time with his sons. Desiring to get back into the video game world, Mr. Macrae co-created the *Azeroth Advisor*, a personalized newsletter for players of Blizzard's *World of Warcraft* game.

Kevin J. Roche. Mr. Roche has 26 years of experience in investment banking, private equity and leveraged finance. From 2001 to 2006, Mr. Roche was Head of Investment Banking at Wachovia Corporation with responsibility for 10 Corporate Finance industry coverage groups, Mergers and Acquisitions, Financial Sponsors Group, and Principal Investing. He held leadership responsibility for over $2.0 billion of revenue, a $40 billion loan portfolio and a $2.0 billion principal investing portfolio. During his 5-year tenure, Wachovia quadrupled its market share of investment banking fee-based revenue. Prior to being Head of Investment Banking, Kevin was Co-Head of Leveraged Finance at Wachovia Corporation from 2000 to 2001 with responsibility for the Loan Syndications; High Yield Origination, Sales and Trading; Leveraged Capital; and Leveraged Finance Underwriting groups. From 1988 to 1999, Mr. Roche was a Managing Partner at Wachovia Capital Partners with a leadership role in founding this private equity investing business and in the successful growth and development of a $2 billion principal investing portfolio. Mr. Roche was previously a Vice President at Kidder, Peabody & Co. Incorporated, where he worked from 1980 to 1982 and 1984 to 1988. Mr. Roche holds a B.A. in Economics, *magna cum laude*, from Duke University and an M.B.A. from Harvard Business School. Mr. Roche is Chairman of the Company's Audit Committee.

Sundar V. Subramaniam. Mr. Subramaniam is Chairman of IBCC whose holdings include Cambridge Technology Enterprises (CTE.NS), Knome (where he is Chairman), MTPV, Cambridge Energy Resources and DNSstuff (where he serves as Director). He is CEO of Sialix and General Partner at Higher Moment Capital. He previously served as Chairman of I-Cube, C-bridge, Open Environment Corporation, and OneWave – all of which completed IPOs, WorldStreet Corporation, Integrated Computing Engines, and as Managing Partner of Cambridge Samsung Partners, a Venture Capital firm. Mr. Subramaniam graduated from Brandeis University with a major in Computer Science and Economics, has an M.B.A. from MIT and an M.S. from HST (Harvard-MIT Health Science and Technology). Mr. Subramaniam is not related to Mr. Shivan S. Subramaniam of the Issuer's Board of Directors.

Thomas J. Zaccagnino. Mr. Zaccagnino is currently Co-Managing Director at Wellesley Advisors Corporation, an institutional private equity real estate investment company. He is also a director at 1921 Realty Incorporated, a Real Estate Investment Trust and at Indaba Music, an international digital media company. Prior to holding these positions, Mr. Zaccagnino was a high-tech entrepreneur. He has transacted business in over 25 countries on 5 continents, and has extensive experience in private equity, M&A, and private and public offerings. Mr. Zaccagnino is also an active early-stage investor and is a member of the Urban Land Institute and the Boston Real Estate Finance Association. He also serves as Chairman of the Yale Alumni Real Estate Association of New England and is a member of the Yale Alumni Schools Committee. Mr. Zaccagnino earned a B.A. from Yale College. Mr. Zaccagnino is Chairman of the Company's Finance Committee.

Litigation

There is no litigation pending in any court or, to the best knowledge of the Company or the Issuer, threatened, questioning the corporate existence of the Company, or the title of the present directors or officers of the Company to their respective offices. There is no litigation or administrative action pending in any court or, to the best knowledge of the Company, threatened, which would restrain or enjoin the Company from the proceedings of the Company taken in connection with the issuance and sale of the 2010 Bonds, the granting of the loan by the Issuer to the Company pursuant to the Agreement, or the pledge and application of any funds or security interests of the Company pursuant to the Agreement, or which contests the powers of the Company, with respect to the forgoing.

Auditor Report

On July 6, 2010, the Company's auditor, PricewaterhouseCoopers LLP issued a "going concern" opinion in connection with the Company's most recent audited financial statements stating that the Company will require additional financing to fund future operations and raising substantial doubt about the Company's ability to continue as a going concern.

THE PROJECT

General Background

The Project is being undertaken in connection with the Job Creation Guaranty Program in order to promote the retention and expansion of business and creation of jobs in the State. The Project includes the relocation of the Company's corporate headquarters and primary place of business in Maynard, Massachusetts to Providence, Rhode Island. The Company currently leases approximately 30,000 square feet of office and studio space at 5 Clock Town Place in Maynard, Massachusetts, which is scheduled to be increased to 50,000 square feet in February 2011 and which is due to expire in May 2014 (the "Maynard Lease"). The Company also leases an additional 19,000 square feet of office and studio space at 1954 Greenspring Drive, Suite 520 in Timonium, Maryland under a lease expiring in March 2014 (the "Timonium Lease").

The Project will also include the establishment by the Company in the State and the operation thereof of a video gaming studio in the City of Providence, Rhode Island, including, but not limited to, costs and expenses related to the development of assets associated with role playing video gaming and massively multiplayer games, and the development of specific products to be used for such purposes. Once the relocation is finalized, the Company anticipates that its Rhode Island workforce is anticipated to grow to over 400. The growth of the Company's workforce will largely be the result of the release of its Massively Multiplayer Online Game, *Copernicus*™.

Relocation of the Company

Under the Agreement, the Company is required to relocate and maintain within six (6) months (subject to an extension due to delay in the landlord's completion of the new offices) of the date of issuance of the 2010 Bonds and for a period of ten (10) years thereafter, a corporate headquarters and primary place of business in the State. In the event the Company relocates its operations within this time outside of Rhode Island, such relocation would be considered an event of default under the Agreement, and the then remaining Loan Payments would become immediately due and payable, in addition to other costs and expenses as provided in the Agreement. Notwithstanding, the Company, without incurring an event of default, may (a) optionally redeem the Bonds as provided herein and pursuant to the Agreement or (b) defease the 2010 Bonds in accordance with Agreement, together with additional costs as provided in the Agreement. See "APPENDIX B – Summary of Certain Provisions of the Agreement" herein.

Lease

A condition precedent to the Company receiving financing through the issuance of the 2010 Bonds is a requirement that the Company execute and deliver an enforceable lease for office space in the State, sufficient to house at least the number of employees contemplated to be employed by the Company in the State, as set forth in the Agreement, satisfactory to the Issuer in its sole discretion having a term or an original term and sufficient renewal terms extending to at least November 1, 2020, and reflecting the payment and delivery of a reasonable and customary deposit for the relocation transaction contemplated by the Agreement.

On September 21, 2010, the Company executed a lease for approximately 104,316 rentable square feet (89,938 of usable square feet) of office and studio space in a single-tenant property located at One Empire Plaza, Providence, Rhode Island (the "Lease"). The Company is not obligated to pay rent on the entire space until the Company first completes its build-out of the office and a six (6) month rent free period expires. The initial term of the lease is six (6) years, with an option to extend the Lease for a renewal term of five (5) years. The Lease is contingent upon the issuance of the 2010 Bonds.

Concurrently with the Lease, the Company will continue paying monthly lease or rental payments due under the Maynard Lease through and until the expiration, or the transfer, assignment or sublease of Maynard Lease. The Agreement prohibits the Company from using proceeds of the 2010 Bonds to pay monthly lease or rental payments under the Maynard Lease, except the payments due after the date of the Agreement and through the month following the relocation of the Company's corporate headquarters. The Company is required to furnish evidence to the Issuer of the existence of "liquid funds" in the amount of $1,500,000 other than the bond proceeds available to make all payments due under the Maynard Lease accruing beyond the date which is one month following the relocation of the Company's corporate headquarters and primary place of business to the State. The Company is currently negotiating the extension of an existing line of credit with a bank to satisfy the "liquid funds" requirement. See "38 STUDIOS, LLC - Commitments, Contingencies and Outstanding Debt Obligations" herein.

Third-Party Monitoring

In connection with the Project and the issuance of the 2010 Bonds, the Issuer and the Company executed a Project Monitoring Agreement to implement third-party monitoring, reporting and response processes regarding the development schedule and budget for *Copernicus*™ in order to assure the Company's development of *Copernicus*™ remains on time and on budget. The Issuer entered into an agreement with International Business Machines Corporation ("IBM") on September 14, 2010 to provide these third-party monitoring services.

Project Milestones

As mentioned in the Agreement, monies shall be disbursed to the Company from the Project Fund in accordance with the following disbursement and milestone schedule:

(i) upon the delivery and the date of issuance of the 2010 Bonds: $10,939,759, and after the date when the Company or a letter of credit bank selected by the Company presents reasonable documentary evidence to the Issuer that the $2,060,241 letter of credit required in connection with the Company's execution of the Lease is to be issued subject only to the funding of a deposit account at such letter of credit bank securing such letter of credit, an additional $2,060,241, which may, in the discretion of the Issuer, be directly disbursed to an account at such letter of credit bank;

(ii) upon the public announcement by the Company of a relocation date to the State, estimated to be by January 31, 2010: $9,400,000 (subject to the delivery of such announcement in a writing to the Issuer in form and substance reasonably satisfactory to the Issuer);

(iii) upon the relocation of the Company's headquarters and Project *Copernicus*™ studio to the State, and the creation of at least 80 Full-Time Jobs in the State with an average annual wage not less than $67,500 per year, estimated to be by May 15, 2011 (such relocation date being subject to the (a) date of issuance of the 2010 Bonds and closing by November 2, 2010; (b) the relocation of the Company's headquarters and studio to the State occurring within six months of the closing and date of issuance of the 2010 Bonds (the Company may extend such relocation by three periods of 30 days each due to delays in landlord's completion of the Company's new offices, with each such extension subject to the written administrative approval of the Issuer, which approval shall not be unreasonably withheld or delayed)): $17,200,000.

(iv) Upon the creation by the Company of an additional 45 Full-Time Jobs in the State with an average annual wage not lass than $67,500 per year estimated to be by November 2, 2011: $4,200,000 (subject to three periods by 30 days each in (iii) above);

(v) Upon the entry by the Company into a satisfactory distribution agreement for its project *Copernicus*™ estimated to be by November 30, 2011: $4,100,000; and,

(vi) Upon the creation by the Obligor of at least an additional 125 Full-Time Jobs in the State with an average annual wage of not less than $67,500 per year to be by January 31, 2012: the balance of the Project Fund.

As of the date of this Private Placement Memorandum, no milestones have been achieved and no funds have been disbursed. Milestone (i) is expected to occur on the date of delivery of the 2010 Bonds.

"Full-Time Jobs" is defined to be "full time jobs with benefits" as defined in R.I.G.L. § 42-64-20(d)(2).

Full-Time Jobs Covenant

Under the Agreement, the Company, in addition to the project milestones, covenanted to create a certain amount of Full-Time Jobs in the State of Rhode Island within the following time periods:

(i) 125 Full-Time Jobs in the State with an average annual wage of not less than $67,500 per year within twelve (12) months of the date of delivery;

(ii) An additional 175 Full-Time Jobs in the State with an average annual wage of not less than $67,500 per year within twenty-four (24) months of the date of delivery;

(iii) An additional 150 Full-Time Jobs in the State with an average annual wage of not less than $67,500 per year within thirty-six (36) months of the date of delivery.

In the event the Company fails to meet any of the Full-Time Jobs requirements, the Company will be required to pay the Issuer annually, commencing March 31, 2012 in accordance with the Agreement, an amount equal to $7,500 per year for each Full-Time Job with an average wage of $67,500 not so added during the applicable year until such shortfall is cured.

INVESTMENT CONSIDERATIONS

The Issuer's ability to pay principal of and interest on the 2010 Bonds depends upon numerous factors, many of which are not subject to the control of the Issuer. Described below are certain factors that could affect the ability of the Company to pay debt service on the 2010 Bonds.

Special and Limited Obligations. The 2010 Bonds are special and limited obligations of the Issuer payable solely from, and secured by, among other things, Loan Payments by the Company to the Issuer, amounts on deposit in the Capital Reserve Fund, Capitalized Interest Fund, Sinking Fund and Project Fund, and by certain appropriations which may be made by the State from time to time, through the General Assembly, all as set forth by the Act, the Issuer Act and the Agreement. The 2010 Bonds and the payment of principal and interest thereon are not general obligations of the Issuer. The payment of the 2010 Bonds is not payable out of any monies of the Issuer other than the Sinking Fund, Capital Reserve Fund, Capitalized Interest Fund and Prepayment Fund established under the Agreement. The 2010 Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State, are not enforceable against the State, nor shall payment thereof be made out of any monies of the State, except monies annually appropriated therefore, if any, by the General Assembly. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS" and APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT."

Development Stage Business. The Company is a development stage video game and entertainment company with no revenues from product sales, except those projected by the Company over the next several years. The company is currently considered "pre-revenue" and no guarantee can be made that the Company will meet its Loan Payment obligations under the Agreement or that the Company will continue to be in business now or in the future. On July 6, 2010, the Company's auditor, PricewaterhouseCoopers LLP issued a "going concern" opinion in connection with the Company's most recent audited financial statements stating that the Company will require additional financing to fund future operations and raising substantial doubt about the Company's ability to continue as a going concern. To the extent that the Company is unable to meet its Loan Payment or other obligations under the Agreement, the Capital Reserve Fund may be drawn upon, and appropriations from the General Assembly of the State will be requested, to make the principal and interest payments to owners of the 2010 Bonds when due. The General Assembly may appropriate such moneys but is not obligated to do so.

Product Development Risks. There can be no assurance that the games under development by the Company will be released on schedule, or ever, or that, if released, they will meet with market acceptance. Nor is there any assurance that any products of the Company will produce significant revenues or earnings for the Company.

Key Personnel. The success of the Company's business will be significantly dependent upon the skills and continued commitment of the Company's visionaries and of key Company personnel. The loss of any one of them could diminish the success of the Company's games and their ability to attract an audience and following.

Risks Inherent in the Video Game and Entertainment Industries. The video game, interactive media and entertainment industries, particularly the business of producing and distributing proprietary video games, is highly speculative and inherently risky. There is no guarantee of the economic success of any video game since the revenue derived from production and distribution of a video game depends primarily upon the video games acceptance, which cannot be predicted. The commercial success of a video game also depends upon the quality and acceptance of other competing games released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, and other tangible and intangible factors, all of which can change at any time and cannot be predicted. As a result, there is a risk that any project undertaken by the Company will not be commercially successful.

Rapid Technology Changes. Technology changes rapidly in the interactive entertainment industry. The Company must continually anticipate and adapt its games to emerging technologies. The Company is designing its games for multiple platforms including personal computers, Xbox 360, PlayStation 3, and multiple handsets, which is more complex and costly than designing games for a single platform. In addition, a decision to design games for a particular technology platform, whether existing or emerging, commits resources to that technology. If that technology is not as successful as anticipated, the games' success will be adversely affected. The Company's success thus depends, in part, on its ability to identify the most promising platforms and successfully develop its games to work on those platforms as they change over time.

Competition. The interactive entertainment industry is highly competitive. It is characterized by the continuous introduction of new titles and the development of new technologies. The Company's success will depend on its ability to execute competitive strategies. The competitors in the market vary in size from very small companies with limited resources to very large companies with considerable financial, marketing, and product development resources. Two principal factors of competition in the video game industry include the ability to select and develop popular game titles and the ability to adapt products for use with new technologies. Successful competition in the video game market is also based on price, product quality, product enhancements, brand recognition, access to retail shelf space, marketing support, and access to distribution channels. The MMO market is currently dominated by Blizzard Entertainment (now an affiliate of Activision Blizzard) and its blockbuster MMO, *World of Warcraft*. Blizzard has more than half of the active worldwide subscribers of MMOs. However, other MMOs with smaller market share – such as *EverQuest I*, *EverQuest II*, *Dungeons and Dragons Online* and *Ultima Online* – have been commercially successful even though they trail Blizzard's *World of Warcraft* in paid usage. The market for MMOs and other video games may be limited and the Company may need to displace customers loyal to existing MMOs and other games in order to be successful. The Company competes with numerous companies licensed by the platform manufacturers to develop or publish software products for use with their respective systems. These competitors include Activision Blizzard, Atari, Capcom, EA, Konami, Namco, Sega, Square Enix, Take-Two Interactive Software, THQ and Ubisoft Entertainment, among others. The Company expects to face additional competition from the entry of new companies into the video game and interactive media markets, including entry by well-financed, diversified entertainment companies.

Competitors with greater resources are able to spend more time and money on concept and focus testing, game development, product testing and marketing. Some of the Company's competitors have better access to distribution networks and other markets than the Company. There is also intense competition for shelf space among video game developers and publishers, many of whom have greater brand name recognition, significantly more titles and greater leverage with retailers and distributors than the Company. The barriers to entry in the PC market are lower because there are no royalties to be paid to the hardware manufacturers. Large diversified entertainment, cable and telecommunications companies, in addition to software companies, are increasing their focus on the interactive entertainment software market, which will likely result in consolidation and greater competition.

Competitors also include providers of alternative forms of entertainment, such as providers of non-interactive entertainment including movies, television and music. Even after the launch of the Company's games in development, if the relative popularity of video games were to decline, the Company's revenues (which are currently none), results of operations and financial condition likely would decline. If the Company is unable to compete successfully, loss of sales, market share, opportunities to license marketable IP and access to next-generation platform technology would result. The Company could also experience difficulty hiring and retaining qualified developers and other employees. Any of these consequences would significantly harm the Company's business, results of operations and financial condition.

General Business Risks. The Company is a development stage company with no revenue to date. There can be no assurance that the games under development will be released on schedule (or, indeed, ever released) or that, if released, they will meet with market acceptance. Nor is there any assurance that any products of the Company will produce significant revenues or earnings for the Company. Among the risks associated with the Company's products are achievement of product cost and development objectives. Even if the Company successfully introduces its *Reckoning* and Project *Copernicus*™ games on schedule, it will need to devote continued resources to product development.

The Company is heavily dependent on its relationship with EA as it relates to the development and marketing of the RPG. EA has certain rights to terminate its funding obligations under the RPG Funding Agreements. While the Company is entitled to a termination fee in the event that EA terminates its funding obligations without cause, such fee would not be sufficient to complete the development of the RPG, and the Company would need to raise additional funds or identify, and negotiate a new publishing arrangement with, an alternative publisher. Such a process could be time consuming and a distraction for management, thereby triggering further delays and disruptions in the development of the Company's products. Moreover, there can be no assurance that the Company would be able to secure an alternative publishing arrangement on terms satisfactory to the Company.

An uncured default by the Company under its publishing agreement with EA could result in a termination of the credit facility underlying the EA publishing arrangement, as well as the co-publishing agreement itself, and a forfeiture of the Company's assets used as collateral for such arrangement, including the membership interests in the Company's subsidiary that owns the rights to the RPG. It is difficult to predict consumer preferences and acceptance of video games, particularly in the case of MMOs, which are a newer form of game. Furthermore, if interest in the genre represented by the Company's planned games declines, the Company's business and financial results will suffer.

In addition, the Company's business model is based, in part, on anticipated subscription fees. Consumer subscriptions for MMO games are often cancelable after a limited period of time, and if new business models emerge that offer online subscriptions for free or at a substantial discount to currently anticipated subscription fees, the Company's ability to achieve its desired financial results would be impaired. The operation of an MMO game, such as *Copernicus*™, poses additional risks such as the possibility of service interruption due to server problems, legal proceedings stemming from the posting of offensive content by subscribers, and security breaches.

Redemption. The 2010 Bonds are subject to redemption upon the occurrence of certain events more particularly described under "THE 2010 BONDS – Redemption Prior to Maturity." Owners of 2010 Bonds are subject to these rights of redemption and owners of 2010 Bonds will be unable to continue to hold their 2010 Bonds in the event of redemption.

Factors Beyond the Control of the Company. Apart from competition and other business risks facing the Company, the financial performance of the Company will depend to some degree upon factors beyond the control of their management, including general national and local economic conditions (e.g., inflation,

unemployment, population growth and distribution trends) and federal, state and local taxation and laws and regulations affecting the Company.

The financial condition of the Company as well as the market for the 2010 Bonds could be affected by a variety of factors, some of which are beyond the Company's control. There can be no assurance that an adverse event will not occur which might affect the market price of and the market for the 2010 Bonds. If a significant event should occur in the affairs of the Company, the market for and market value of the 2010 Bonds could be adversely affected.

Limitations on Resale. The 2010 Bonds have not been registered under the 1933 Act in reliance upon exemptions contained in Regulation D to the 1933 Act, or under chapter 11 of title 7 of the General Laws of Rhode Island (1956, as reenacted 1999), nor have the 2010 Bonds been registered or qualified under the securities laws of any other state of the United States. The 2010 Bonds will not be listed on any stock or other securities exchange. The Agreement has not been qualified under the 1939 Act. The 2010 Bonds will be offered to "accredited investors" within the meaning of Rule 501(a) promulgated under the 1933 Act. The 2010 Bonds are subject to restrictions on resale and transferability under federal and state securities laws, and purchasers may not transfer or resell the 2010 Bonds except as provided under applicable federal and state securities laws or pursuant to proper registration or exemption therefrom. Any qualification of the Agreement under the 1939 Act may require amendments thereof.

FORWARD-LOOKING STATEMENTS

This Private Placement Memorandum contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Private Placement Memorandum, the words "estimate," "forecast," "intend," "expect," "project" and similar expression identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

LITIGATION

There is no litigation pending in any court or, to the best knowledge of the Issuer, threatened, questioning the corporate existence of the Issuer, or the title of the present Directors or officers of the Issuer to their respective offices. There is no litigation or administrative action pending in any court or, to the best knowledge of the Issuer and the State, threatened, which would restrain or enjoin the issuance, sale or delivery of the 2010 Bonds or in any way contest or affect the validity of the 2010 Bonds, or which concerns the proceedings of the Issuer taken in connection with the issuance and sale of the 2010 Bonds, or the pledge and application of any funds pursuant to the Agreement provided for the payment of the 2010 Bonds, or which contests the powers of the State and the Issuer, with respect to the forgoing.

The Attorney General of the State will provide a certificate in connection with the issuance of the 2010 Bonds that, to the best of his knowledge, there is no pending or threatened litigation against the State or the Issuer contesting the validity of the Act or the Issuer Act, or seeking to enjoin the issuance of the 2010 Bonds by the Issuer.

There is no litigation pending or threatened against the Company as described under the heading "38 STUDIOS, LLC – Litigation" herein.

TAX MATTERS

Interest on the 2010 Bonds is includible in gross income for federal income tax purposes.

In the opinion of Moses & Afonso, Ltd., Bond Counsel, except for estate, inheritance, and gift taxes, the 2010 Bonds and the income (including gain from sale or exchange) therefrom shall at all times be free from taxation of every kind by the State of Rhode Island and its municipalities and political subdivisions, although income from the 2010 Bonds may be included in the measure of certain Rhode Island corporate and business taxes.

Bond Counsel expresses no opinion regarding any other federal, State, or local tax consequences with respect to the 2010 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assume no obligation to update its opinion after the issue date to reflect any further action, fact, or circumstance or change in law or interpretation.

COVENANT BY THE STATE

Under the Issuer Act, the State pledges and agrees with owners of the 2010 Bonds that the State will not limit or alter the rights vested in the Issuer to fulfill the terms of any agreements made with the holders until the 2010 Bonds, together with the interest on these 2010 Bonds, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the holders, are fully met and discharged.

CONTINUING DISCLOSURE

The private placement of the 2010 Bonds is exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission and is not subject to the continuing disclosure requirements thereof. However, the Issuer and the Company have agreed to provide certain continuing disclosures for the benefit of owners of the 2010 Bonds as provided "Appendix C – Forms of Continuing Disclosure Agreements" herein. The State provides ongoing disclosure of the information contained in Appendix A herein as a consequence of its responsibilities under its existing obligations under other bond issuances. The State has not otherwise contracted to furnish ongoing disclosure in connection with the issuance of the 2010 Bonds.

CERTAIN LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and delivery of the 2010 Bonds are subject to the approval of Moses & Afonso, Ltd., Providence, Rhode Island, Bond Counsel, whose approving opinion substantially in the form appended hereto as APPENDIX C will be delivered with the issuance of the 2010 Bonds. Certain legal matters will be passed upon for the Placement Agents by its counsel, Pannone Lopes Devereaux & West LLC, Providence, Rhode Island. Certain legal matters will be passed on for the State by its Disclosure Counsel, Taft & McSally LLP, Cranston, Rhode Island, for the Issuer by its General Counsel, Adler, Pollock & Sheehan P.C., Providence, Rhode Island, for the Trustee by its counsel Bernstein, Shur, Sawyer and Nelson, P.A., Portland, Maine, and for the Company by its counsel Edwards Angell Palmer & Dodge LLP, Providence, Rhode Island.

FINANCIAL ADVISOR

The Issuer has retained FirstSouthwest, to serve as their financial advisor in connection with the issuance of the 2010 Bonds (the "Financial Advisor"). The Financial Advisor has not independently verified any of the information contained in this Private Placement Memorandum and makes no guarantee as to its completeness or accuracy. The Issuer may engage the Financial Advisory to perform other services, including without limitation, providing certain investment services with regard to the investment of the 2010 Bonds.

RATINGS

Standard & Poor's Rating Service ("S&P") and Moody's Investors Service ("Moody's") is expected to assign ratings of "AA+" and "Aa3" respectively, based upon the understanding that the payment of the principal of and interest on the 2010 Bonds will be guaranteed by a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. simultaneously with the delivery of the 2010 Bonds.

S & P and Moody's have assigned underlying ratings of "A" and "A2," respectively, on the 2010 Bonds.

Such ratings reflect only the views of the respective ratings organizations, and any explanation of the meaning or significance of such ratings may be obtained from the respective ratings agency. The Issuer and the State furnished to the rating agencies certain information and materials, some of which have not been included in this Private Placement Memorandum. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There is no assurance that a rating when assigned will be maintained for any given period of time or that it may not be revised downward or withdrawn entirely by a ratings agency if in their judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the marketability or market price of the 2010 Bonds.

The Issuer and the State expect to furnish each rating agency with information and materials that it may request. The Issuer and the State, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the 2010 Bonds.

PRIVATE PLACEMENT AGENT

The 2010 Bonds are being privately placed by Wells Fargo Securities, LLC ("Wells Fargo") as representative of Wells Fargo and Barclays Capital at an aggregate purchase price for the 2010 Bonds of par less the Placement Agents' fee of $634,065.00. In addition, Wells Fargo will be paid $50,000 by the Company in connection with their disclosure and due diligence of the Company with respect to this transaction. The Placement Agents may offer and sell the 2010 Bonds to certain dealers and others at prices other than the initial offering price. The offering price may be changed from time to time by the Placement Agents.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA, and SIPC and Wells Fargo Bank, National Association.

PRIVATE PLACEMENT OF THE 2010 BONDS

The 2010 Bonds are being offered to "accredited investors" within the meaning of Rule 501(a) promulgated under the 1933 Act. Potential investors are solely responsible for evaluating the merits and the risks of an investment in the 2010 Bonds. Each purchaser of the 2010 Bonds will be required to execute and deliver an Investor Letter substantially in the form attached hereto as Appendix E upon delivery and acceptance of the 2010 Bonds.

MISCELLANEOUS

The Issuer has furnished the information in this Private Placement Memorandum relating to the Issuer. The State has furnished Appendix A to the Private Placement Memorandum only.

Copies of the Agreement may be obtained from the Issuer's Executive Director, 315 Iron Horse Way, Suite 301, Providence, Rhode Island 02908 (telephone: (401) 278-4100).

All statements in this Private Placement Memorandum involving matters of opinion, estimates, forecasts, projects, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Issuer are fully set forth in the Agreement in accordance with the Act and this Private Placement Memorandum is not to be construed as a contract or agreement between the Issuer or the State and the purchasers or Owners of any of the 2010 Bonds.

This Private Placement Memorandum is submitted in connection with the sale of the 2010 Bonds by the Issuer and may not be reproduced or used, in whole or in part, for any other purpose. Concurrently with the delivery of the 2010 Bonds, the State will furnish a certificate executed on behalf of the State by its Acting Budget Officer to the effect that Appendix A to this Private Placement Memorandum, as of the date of this Private Placement Memorandum and as of the date of delivery of the 2010 Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The Issuer will furnish a certificate to the same tenor, but will exclude the information contained in Appendix A which has been furnished solely by the State. This Private Placement Memorandum has been duly authorized and approved by the Issuer and duly executed and delivered on its behalf by the officials signing below.

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

By: /s/ Keith Stokes
Executive Director

Dated: October 22, 2010

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APPENDIX A

Information Statement of the State of Rhode Island and Providence Plantations dated June 30, 2010

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: June 30, 2010

Appendix A
Table of Contents

Page

Table of Contents A-2

State Government Organization and Finances A-3
General Information A-3
Municipalities A-3
Principal Governmental Services A-7
State Fund Structure – Accounting Basis A-11
Budget Procedures A-12
Financial Controls A-13
Recent Events A-14
General Fund Revenues and Expenditures A-15
Major Sources of State Revenue A-15
Economic Forecast A-32
Revenue Estimates A-35
Final Adopted FY 2010 General Revenues A-35
Final Enacted FY 2010 Revenue Changes A-38
Revised FY 2011 General Revenues A-39
FY 2011 Enacted Revenues A-41
Comparative Statements of Revenues and Expenditures A-44
Revenue Tables A-45
Expenditure Tables A-48
Free Surplus A-58
Certain Matters Relating to Audited Financial Reports A-62
State Indebtedness A-62
Authorization and Debt Limits A-62
Public Finance Management Board A-62
Sinking Fund Commission A-62
Tax Anticipation Notes A-63
Net Tax Supported State Debt A-63
Net Tax Supported Debt and Debt Ratios A-64
Debt Service Schedule A-65
Authorized but Unissued Direct Debt A-66
Extinguishments of Debt Authorizations A-66
Authorized But Unissued Obligations Subject to Annual Appropriation A-69
Borrowing for the Employment Security Fund A-70
State Agencies and Authorities A-72
Employee Relations A-84
State Retirement Systems A-85
Employees' Retirement System A-85
Financial Objectives and Funding Policy A-86
Progress Toward Realization of Financing Objectives A-86
Pension Reform A-87
GASB 25 and Funding Progress A-90
Schedule of Funding Progress A-92
Schedules of Contributions from the Employers and Other Contributing Entity A-93
Notes to Required Supplementary Information A-93
Other Benefits A-94
Litigation A-94
Financial Statements A-95
Basic Financial Statements of the State of Rhode Island and
Providence Plantations as of and for the Year Ended June 30, 2009 ..... Exhibit A
Economic Information ..... Exhibit B

STATE GOVERNMENT ORGANIZATION AND FINANCES

General Information

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

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

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

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

Municipalities

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

Since 1985, cities and towns had been prohibited by Section 44-5-2 of the General Laws of the State from imposing a tax levy or tax rate, which increases by more than 5 ½ percent over the previous year's levy or rate. The statute authorized tax levy or tax rate increases of greater than 5 ½ percent in the event that the amount of debt service required to service present and future general obligation debt of the city or town increased at a rate greater than 5 ½ percent. The statute also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation of property is being implemented. Provisions of Section 44-5-2 also included authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arose and was certified by the State Auditor General. In such an emergency situation, the levy in excess of a 5 ½ percent increase had to be approved by a majority of the city or

town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligation bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

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

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

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

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

State Oversight for Municipal Fiscal Stability

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

The Act was a result of the display of fiscal weakness in several communities, culminating with the City of Central Falls filing for judicial receivership in the RI Superior Court on May 18, 2010. Ratings for general obligation debt issued by Central Falls had been downgraded to below investment grade. The State is working with

the temporary judicial receiver to plan for an orderly transition to a State executive receivership in Central Falls. The State has a compelling interest in the fiscal health of municipalities. The Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support and control depending on the circumstances. It repeals Chapter 45-9 relating to Budget Commissions in its entirety and creates three levels of State oversight and control. The three levels are: fiscal overseer, budget commission, and state receiver. If the director of revenue determines in consultation with the auditor general that a city of town is facing a fiscal emergency and that circumstances do not allow for the appointment of a fiscal overseer or a budget commission, the director of revenue may appoint a receiver without first having appointed a fiscal overseer or budget commission. The Act also prohibits municipalities from filing for or being placed into, either voluntarily or involuntarily, judicial receivership and clarifies that the Superior Court has only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the director of revenue and to take such further actions as may be necessary to ensure an orderly transition.

Local Tax Relief

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

The other local property tax levy reduced was the local levy on motor vehicles and trailers. This tax was to be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there was no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and for FY 2009, the first $6,000 in value of a vehicle was exempted from taxation and municipalities were prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities were being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities were being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget enacted by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program was reduced by $18.1 million, approximately 13.4 percent of the enacted FY 2010 budget amount. The statute was amended to require reimbursement to communities equal to 88 percent of the 98 percent current rate of reimbursement. For FY 2011, the Governor proposed, in his recommended FY 2011 budget, to eliminate all state appropriations to reimburse local governments for the $6,000 exemption, and included permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above. In the General Assembly enacted budget for FY 2011, an appropriation of $10.0 million is provided for this program as compared to the $135.3 million in the FY 2010 Enacted Budget. The legislation was also amended to reduce the exemption amount from $6,000 to $500, although communities are authorized to provide an additional exemption. However, these additional exemptions would not be subject to reimbursement from the State. Reimbursements to the cities and towns based on the $500 exemption will be ratably reduced based on the enacted appropriation of $10.0 million, because this will be insufficient to fully fund the reimbursements at this exemption level.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. For FY

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

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

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

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities and renovations. The recently enacted funding formula also raises the minimum reimbursement percentage to 35 percent for the FY 2012 payments and 40 percent for the FY 2013 payments and thereafter. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. This program has grown from $18.7 million in FY 1997 to $70.8 million in the FY 2011 enacted budget. A related program will provide approximately $2.5 million in FY 2011 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the motor vehicle excise tax reimbursement, general revenue sharing, payment-in-lieu of taxes (PILOT) program and distressed communities aid program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax, as described above. No funding was provided for this program in either the FY 2010 or FY 2011 enacted budgets. The Motor Vehicle Excise Tax Reimbursement Program was funded at $135.6 million in the FY 2010 Enacted Budget. As noted above, however, this was reduced in the final enacted budget to $117.2 million. For FY 2011, the enacted budget includes an appropriation of $10.0 million to local governments for the Motor Vehicle Excise Tax Reimbursement and a reduction of the exemption from $6,000 to $500.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facilities, and correctional facilities. The FY 2011 Enacted Budget includes $27.6 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2011 Enacted Budget to fund allocations for eight communities. Of these communities, Central Falls was determined to be especially distressed in FY 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. The State also provides funds to cities and towns which host airports, and expects to distribute a total of $1.025 million in FY 2011. Rhode Island

also distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at $10.2 million for FY 2011. Also, the State distributes a 1% (one percent) meals and beverage tax, estimated at $18.8 million for FY 2011 according to the proportion of that tax collected in each community.

Principal Governmental Services

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

General Government

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

Department of Administration. The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, and labor relations. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, as well as building code administration. During the 2005 Session of the General Assembly, the State Lottery Commission was abolished and the Lottery became a division within the Department of Administration. In 2006, the Division of Lotteries was transferred to the new Department of Revenue.

The Department of Administration also includes the Office of Energy Resources, which is responsible for coordinating all energy matters. In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide 1.3 million megawatt hours per year of renewable energy, which is approximately 15 percent of all electricity used in the State. The first phase of the project is scheduled to begin in late 2010 and be completed in June 2012. It is expected that the development will cost in excess of $1.5 billion to construct, which will all be funded through private investment sources.

Department of Revenue. During the 2006 session of the General Assembly, the Department of Revenue was created. The new department incorporates several divisions and units previously assigned to the Department of Administration, including the Division of Taxation, the Registry of Motor Vehicles, Division of State Lottery, and the Office of Municipal Finance. New offices of the Director and Revenue Analysis were also created.

Department of Labor and Training. The Department of Labor and Training is responsible for administering benefit payment programs, workforce development programs, workforce regulation and safety programs, and the Labor Relations Board. The Department is responsible for administering the Employment Security Act, which provides for the payment of benefits to qualified unemployed workers from taxes collected from Rhode Island employers. The Department also administers the Temporary Disability Insurance Act and the Worker's Compensation Act. The Temporary Disability Insurance Act provides for the payment of benefits to workers who are unemployed due to illness or non-work related injuries from taxes paid by all employees. The Worker's

Compensation Act provides for the payment of benefits to workers who are unemployed due to work related injuries from insurance premiums paid by employers. The Department's workforce development programs include Employment Resource Centers located throughout the State, which provide job referral, job placement and counseling; and Job Training Partnership Act employment training and support services for adults and youths.

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

Human Services

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

The three major departments in the Human Services function include the Departments of Human Services, Children, Youth and Families, and Behavioral Health Care, Developmental Disabilities and Hospitals.

Department of Human Services. The Department of Human Services operates as the principal State agency for the administration and coordination of local, State and federal programs for cash and medical assistance and social services. The responsibilities of the Department include supervision of the following programs: Medical Assistant Programs (Medicaid), the State Children's Health Insurance Program (SCHIP), vocational rehabilitation, child support enforcement, supplemental security income, general public assistance, food stamps, family independence program, cash assistance, child care and training 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 Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (DBHDDH) provides services which may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. The Department either provides these services directly through the Eleanor Slater Hospital system which operates at two sites, the Cranston Unit and the Zambarano Unit, and the Rhode Island Community Living and Supports System (RICLAS), or provides them through contracts with private, non-profit hospitals, and agencies. The Department organizes, sets standards, monitors and funds programs primarily according to the nature of a client's disability. Behavioral health services help people who have psychiatric disorders and severe mental illness, such as manic depression or schizophrenia. Developmental disabilities services assist individuals whose handicap is often accompanied by disabilities like cerebral palsy, epilepsy, autism, behavioral problems and other physical and mental conditions. DBHDDH hospitals provide long term care for people who need medical treatment and nursing care for problems associated with chronic illness. The Department also provides substance abuse prevention and treatment services in addition to gambling addiction services.

Education

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

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

Board of Governors for Higher Education. The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for public higher education in the State, including a comprehensive capital development program. Board members are appointed by the Governor. In addition, the Board holds title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (collectively, the "State Colleges"). While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education. The Board has had the Rhode Island Health and Educational Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2009 totals $221,177,811. In addition, in connection with certain projects for FY 2010 and FY 2011, the General Assembly authorized the Board to (i) issue up to $42,695,000 of revenue bonds through the Rhode Island Health and Educational Building Corporation for the construction of a four-story residence hall for the University of Rhode Island, (ii) issue up to $11,310,000 of revenue bonds through the Rhode Island Health and Educational Corporation to renovate the recreation center at Rhode Island College, (iii) issue up to $15,200,000 of revenue bonds through the Rhode Island Health and Educational Corporation for the repavement and construction of roadways at various campuses of the University of Rhode Island, and (iv) incur debt up to an amount of $850,000 to acquire a fraternity house at the University Rhode Island for its International Engineering Program by means of an installment purchase. A combined revenue bond issuance for items (ii) and (iii) above was completed on February 17, 2010 for $24,005,000. As of June 30, 2009 a balance of $800,000 is outstanding on a loan for the project contemplated by item (iv). A revenue bond issuance for item (i) above was completed on May 27, 2010 for $42,695,000.

Public Safety

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

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

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

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

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

Natural Resources

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

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

Transportation

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

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

Transportation Program, and the remaining 0.5 cent from the UST fee to the Department of Environmental Management's Underground Storage Tank Replacement Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Economic Development Corporation, at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. The State completed the GARVEE financings in three series over a period of six years. The first series, in the amount of $216,805,000, was issued on November 25, 2003. The second series, in the amount of $184,620,000, was issued on March 2, 2006. The third series in the amount of $169,395,000 was issued on April 2, 2009. Given the magnitude of the projects and recent construction inflation, the projects collectively have cost significantly more than originally expected, which cost increases are likely to continue until such projects are completed. To the extent costs are higher, funding from the annual State and Federal Highway Construction Assistance Programs would be available as a source of funding. This could displace other planned projects.

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

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

State Fund Structure – Accounting Basis

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

The State's financial statements are prepared in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*. The basic financial statements consist of the government-wide financial statements and the fund financial statements. The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position for

governmental type activities, proprietary type activities and discretely presented component units, which assists in assessing the State's financial condition at the end of the year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred. The fund financial statements focus on the State's major governmental and enterprise funds, including its blended component units. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

Budget Procedures

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

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

The budget as proposed by the Governor is considered by the General Assembly. Under State law, the General Assembly may increase, decrease, alter or strike out any items in the budget, provided that such action may not cause an excess of appropriations for expenditures over expected revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it shall provide the necessary additional revenue to cover such appropriations. The Governor may veto legislative appropriations bills. However, the Governor does not have line-item veto authority. The General Assembly may override any veto by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. Supplemental appropriation measures shall be submitted by the Governor to the General Assembly on or before the 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 Plan Fund. The FY 2007 budget reserve account balance was approximately $78.6 million. This reflects an appropriation by the General Assembly of $19.4 million from the Budget Reserve Account to the General Fund surplus due to actual revenue collections for FY 2007 being less than enacted, potentially causing a deficit in the General Fund. The Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The Governor's FY 2008 revised budget provided for an appropriation of $19.4 million to repay the transfer made in FY 2007 and the actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Reserve Account to the General Fund. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation, the General Fund ended FY 2009 with a deficit of $62.3 million. The FY 2010 enacted budget included $22.0 million of appropriations to repay the Rhode Island Capital Plan Fund. However, the enacted Supplemental FY 2010 budget delays that repayment to the Rhode Island Capital Plan Fund to FY 2011.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Plan Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the Budget Reserve Account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the Budget Reserve Account maximum balance would be gradually increased by 0.4 percent annually to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2010, spending is limited to 97.6 percent of revenues and the Budget Reserve Account is capped at 3.8 percent of resources. In FY 2011, spending is limited to 97.4 percent of revenues and the Budget Reserve Account is capped at 3.8 percent of resources.

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

Financial Controls

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

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

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

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

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

In 2008, the State's cash equivalent type investments included funds invested with The Reserve – U.S. Government Fund, which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. There were three State funds that were invested in The Reserve – U.S. Government Fund. The date redemptions were suspended, the Lottery had approximately $21.6 million invested, the Temporary Disability Insurance Fund had $34.1 million invested, and the General Fund had $6.8 million. All of the approximately $62.5 million of State funds invested with The Reserve – U.S. Government Fund have been recovered by the State, and there was no negative impact on the Lottery operations or the operations of any other State agency.

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

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

Recent Events

On March 30, 2010, the State experienced severe flooding in certain parts of the State resulting in a federal declaration of emergency for the entire state. This declaration makes the State eligible for certain federal reimbursement from the Federal Emergency Management Agency (FEMA) and the Federal Highway Administration (FHWA) for damage to transportation infrastructure. As of June 25, 2010, the RI Emergency Management Agency has collected data on damage and costs incurred by various municipalities and State agencies

totaling approximately $7.0 million, not including transportation infrastructure related expenses. The State anticipates the federal government will reimburse up to 75 percent of these costs.

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2008 and FY 2009 reflect audited revenues. For a discussion of revenues for FY 2010 and FY 2011, see "Revenue Estimates – Final Enacted FY 2010 General Revenues" and "Revenue Estimates – Enacted FY 2011 General Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2009, 65.8 percent of all taxes and departmental receipt revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 57.8 percent of all general revenues.

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

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

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

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The

legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the personal income tax on certain business tax liabilities of a taxpayer.

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

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

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

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

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

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

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

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

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to $356.2 million in revenue bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). $150,000,000 of the Economic Development Corporation bonds were issued in June 2009, and they are secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, in the amount of $3.8 million, were deposited in a restricted receipt account and were applied prior to June 30, 2009 to the reimbursement of the historic tax credits previously taken. Beginning in May 2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference no longer reflect a reduction for historic structure tax credits as any credits redeemed are to be reimbursed from the funds authorized by the General Assembly.

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

In the 2009 Session, the General Assembly approved the Governor's proposal to let the changes in the federal earned income tax credit (EITC) program contained in the American Recovery and Reinvestment Act of 2009 (ARRA) pass through to the Rhode Island personal income tax return. The federal change allows for a temporary increase in the EITC from 40.0 percent of the first $12,570 of earned income to 45.0 percent of the same for families with three or more children. The allowance for the pass through of this credit is estimated to reduce revenues by $175,306 in FY 2010. The 2009 General Assembly chose not to have the State's personal income tax adversely impacted by two other provisions of ARRA, namely the exclusion of the first $2,400 of unemployment compensation from federal adjusted gross income and the deduction from federal adjusted gross income of the state sales tax paid on new, qualified motor vehicles purchased between February 17, 2009 and December 31, 2009. This action is estimated to save the State $5.4 million and $1.4 million in foregone revenue, respectively, in FY 2010.

In addition, in the 2009 Session, the General Assembly passed legislation that requires Rhode Island taxpayers to add back to federal adjusted gross income the recognition of income from the discharge of business indebtedness that has been deferred for federal tax purposes under ARRA. Furthermore, the Assembly changed the treatment of capital gains income for Rhode Island income tax purposes such that all realized net capital gains will be taxed at ordinary income tax rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent depending on a taxpayer's Rhode Island taxable income or the applicable flat tax rate, if elected. This change applies to assets sold on or after January 1, 2010. Increased revenues of $28.8 million are estimated for FY 2010 from this change.

In the 2010 Session, the General Assembly passed and the Governor signed into law a substantive structural reform of the State's personal income tax system. The reformed personal income tax system replaces both the five bracket progressive tax rate and the alternative flat tax rate personal income tax systems effective for tax years beginning after December 31, 2010. The reformed personal income tax system begins with federal Adjusted Gross Income (AGI) modified as provided for in current law and then subtracts an enhanced standard deduction of between $7,500 and $15,000 and a personal and dependent exemption amount of $3,500 to arrive at taxable income. Both the enhanced standard deduction and the personal and dependent exemption amounts are subject to phase-out at modified AGI of more than $175,000. Unlike in prior tax years, itemized deductions can no longer be passed through from a taxpayer's federal income tax return. Taxable income is then subject to tax at marginal rates of 3.75, 4.75, and 5.99 percent to yield the Rhode Island tax liability before credits. In the tax years ending before January 1, 2011, taxpayer's could choose to either subject modified AGI less deductions and exemptions to marginal rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent or subject modified AGI to the alternative flat tax rate (which was 6.0 percent in Tax Year 2010) to yield Rhode Island tax liability before credits. Under the reformed personal income tax system, eight tax credits may be taken against the computed Rhode Island tax liability versus 36 tax credits that could be utilized against the Rhode Island tax liability computed under the five bracket progressive rate personal income tax system. (No credits other than taxes paid to other states are allowed for taxpayers that utilized the alternative flat tax rate system.) The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit, the property tax relief credit, the lead paint abatement credit, a child and dependent care credit, credit for taxes paid to other states, the motion picture production company credit, the credit for contributions to qualified K-12 scholarship organizations, and the historic structures tax credit. Each of these credits is also available under current law. At the time of enactment, the reformed personal income tax system was estimated to be revenue neutral.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled $940.5 million or 31.1 percent, of the State's FY 2009 total general revenues. FY 2009 personal income tax collections declined by $133.1 million from FY 2008 and also decreased in the share of total general revenues from FY 2008 levels.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing and most footwear; (c) prescription 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 was $3.68 million while in years 6–20 of the Mall's operation it is $3.56 million. These provisions are delineated in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the 1996 General Assembly and Public Investment and HOV Agreement. It is expected that the sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax revenues generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax revenues generated at the Mall are not sufficient. To date, the sales tax revenue generated by the Providence Place Mall has been more than sufficient to meet these obligations.

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

In the 2005 Session, the General Assembly 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.

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

In the 2009 session, the General Assembly enacted legislation to expand the definition of retailer subject to the state's sales and use tax. In particular, the General Assembly added as a category of retailer, "[E]very person making sales of tangible personal property through an independent contractor or other representative, if the retailer enters into an agreement" with a Rhode Island resident under which the Rhode Island resident receives "a commission or other consideration" for "directly or indirectly, whether by a link on an Internet website" or by other means referring potential customers to the retailer. Known as the "Amazon tax", this expanded definition of retailer took effect on July 1, 2009. No incremental revenue from the Amazon tax was estimated for FY 2010.

The sales and use tax accounted for approximately $807.9 million, or 26.7 percent, of the State's FY 2009 total general revenues. FY 2009 final sales and use tax collections decreased in dollar terms but increased in the share of total general revenues from FY 2008.

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

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

prevailing hourly minimum wage as determined by State law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained.

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

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

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

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

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

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

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

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

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

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

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

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

The business corporation tax totaled $104.4 million, or 3.5 percent, of the State's FY 2009 total general revenues. FY 2009 preliminary business corporations tax collections decreased in both dollar terms and in the share of total general revenues from FY 2008.

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

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the Governor recommended reducing the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowers their payments of the 5.5 percent provider tax. The Assembly adopted the Governor's recommendation to decrease total payments to nursing homes by $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, the Governor recommended a series of expenditure reductions to nursing homes that will lower the State tax revenues. The 2009 General Assembly adopted the Governor's recommendations resulting in an estimated decline in revenue of $1,573,411 in FY 2010. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes effective July 1, 2009. This decline in general revenue is accounted for in the estimates adopted at the semi-annual Revenue Estimating Conference beginning in May 2009.

The health care provider assessment accounted for approximately $46.0 million, or 1.5 percent, of the State's FY 2009 total general revenues. The dollar amount decreased for the health care provider assessment between FY 2009 and FY 2008. The health care provider assessment also decreased in the share of total general revenues between the two fiscal years.

Taxes on Public Service Corporations. A tax ranging from 1.25 percent to 8.0 percent of gross earnings is assessed annually against any corporation enumerated in Title 44, Chapter 13 of the General Laws, incorporated under the laws of the State or doing business in Rhode Island and meeting the Public Service Corporations test. In the case of corporations whose principal business is manufacturing, selling or distributing currents of electricity, the rate of tax imposed is 4.0 percent. For those corporations manufacturing, selling or distributing illuminating or heating gas, the rate of tax imposed is 3.0 percent of gross earnings. Corporations providing telecommunications

services are assessed at a rate of 5.0 percent. However, 100.0 percent of the amounts paid by a corporation to another corporation for connecting fees, switching charges and carrier access charges are excluded from the gross earnings of the paying company. The tangible personal property within the State of telegraph, cable, and telephone corporations used exclusively for the corporate business, is exempt from taxation, subject to certain exceptions.

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

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

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

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

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

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

The public service corporation gross earnings tax accounted for approximately $126.7 million, or 4.2 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased for the public utilities gross earnings tax between FY 2009 and FY 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

of tax from 3.0 percent to 4.0 percent for contracts of insurance written by surplus line brokers effective January 1, 2011. A revenue increase of $1.3 million is anticipated for FY 2011 as a result of these changes.

The insurance companies' gross premiums tax accounted for approximately $78.0 million, or 2.6 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased between FY 2009 and FY 2008.

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

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

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

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

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

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

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

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

The financial institutions tax accounted for approximately $5.4 million, or 0.2 percent, of the State's FY 2009 total general revenues. Both the dollar amount of collections and the share of total general revenues increased for the financial institutions excise tax between FY 2009 and FY 2008.

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 $1.8 million, or 0.1 percent, of the State's FY 2009 total general revenues. The dollar amount of bank deposits taxes increased as did its share of total general revenues from FY 2009 versus FY 2008.

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

In the 2009 Session, the General Assembly passed legislation that increased the exemption amount for net taxable estates subject to the State's estate tax. In particular, the General Assembly increased the exemption amount to $850,000 for the net taxable estates of decedents whose death occurs on or after January 1, 2010. In addition, the General Assembly indexed this exemption amount beginning on January 1, 2011 to the Consumer Price Index for all Urban Consumers as of September 30 of the prior calendar year. The estimated revenue impact of the increased exemption amount is a reduction in general revenues of $800,300 for FY 2010.

The estate tax accounted for approximately $28.1 million, or 0.9 percent, of the State's FY 2009 total general revenues. The dollar amount of estate taxes and the share of total general revenues decreased in FY 2009 from FY 2008.

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

The cigarette stamp tax rate has increased consistently over the last several years. In FY 1998 the cigarette excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette excise tax rate was increased to $1.00 per pack on July 1, 2001 and then to a $1.32 a pack effective May 1, 2002. On July 1, 2003, the cigarette excise tax rate was increased to $1.71 a pack and on July 1, 2004, it was increased by 75 cents to $2.46 per pack of 20 cigarettes.

In the 2009 Session, the General Assembly accepted the Governor's proposal to increase the cigarette stamp tax rate from $2.46 per pack of 20 cigarettes to $3.46 per pack. The effective date of the act was April 10, 2009.

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

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

The cigarette tax accounted for approximately $130.5 million, or 4.3 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2009 and FY 2008.

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

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

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

In the 2009 Session, the General Assembly concurred with the Governor's proposal to allow the $0.01 per gallon of the motor fuel tax that was transferred to the general fund to remain with the Department of Transportation. This proposal was estimated to reduce general revenues by $4,400,000 in FY 2010. In addition, the General Assembly increased the state's motor fuel tax by $0.02 per gallon to $0.32 per gallon. The additional revenue from the $0.02 per gallon increase in the motor fuel tax was dedicated for use by the Rhode Island Public Transit Authority (RIPTA). The tax increase has no impact on state general revenues. Further, the General Assembly passed legislation that exempts the biodiesel portion of certain gallons of blended petro-diesel motor fuel from the state's motor fuel tax. This legislation passed into law without the Governor's signature and has no impact on State general revenues. Finally, the Governor proposed and the General Assembly agreed to transfer to RIPTA one-half cent of the $0.01 per gallon surcharge on motor fuel that was designated for the Underground Storage Tank Review Board. This reallocation has no effect on state general revenues.

The transfer of the motor fuel tax to the General Fund accounted for approximately $4.3 million, or 0.1 percent, of the State's FY 2009 total general revenues. The dollar amount of the motor fuel tax transfer decreased while its share of total general revenues remained constant between FY 2009 and FY 2008.

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. State sales and use tax is applied to the final sale price of all beer, wine, and spirits sales in the State.

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

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

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

Other taxes accounted for approximately $68.0 million, or 2.2 percent, of the State's FY 2009 total general revenues. FY 2009 other tax collections decreased in dollar terms but increased in share of total general revenues from FY 2008.

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

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

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

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

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

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

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

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

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

In the 2008 Session, the General Assembly placed a moratorium on the Historic Preservation Tax Credit program and gave developers with on-going projects a choice of either prepaying the processing fee at a rate of 3.0

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

In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009 and enacted legislation for that purpose. Beginning in May 2009, the estimates for departmental receipts adopted at the semi-annual Revenue Estimating Conference include the impact of these changes in the fees for license and registration reinstatements and certificates of title.

In addition, the 2009 General Assembly increased the hospital licensing fee rate for FY 2009. Specifically, the General Assembly increased the hospital licensing fee rate for FY 2009 to 5.437 percent and applied it to the 2007 base year net patient revenues. This change increased FY 2009 hospital licensing fee receipts by $16.2 million to $111.4 million. For FY 2010, the General Assembly concurred with the Governor's proposal to re-instate the hospital licensing fee but decreased the rate to 5.237 percent and applied it to each hospital's fiscal 2008 net patient revenue. The total impact of these changes is to increase the amount collected from the hospital licensing fee to $128.8 million in FY 2010. The payment of the FY 2010 hospital licensing fee will occur in July 2010.

Further, the 2009 General Assembly increased several fees administered by the Coastal Resources Management Council, raised numerous professional license fees collected by the Department of Business Regulation, and instituted a fee to expunge criminal records. Each of these fee changes were effective July 1, 2009 and are anticipated to raise $185,000, $1.6 million, and $1.2 million respectively in additional departmental receipts in FY 2010.

In the 2010 Session, the General Assembly increased the rate of the Hospital License Fee from 5.237 percent to 5.314 percent applied to each hospital's fiscal year 2008 net patient revenue. This change is expected to increase FY 2010 licenses and fees departmental receipts by $1.9 million. (It should be noted that the FY 2010 hospital licensing fee is to be paid in July 2010 and accrued back to FY 2010.) For FY 2011, the General Assembly concurred with the Governor's proposal to reinstitute the hospital licensing fee but at a rate of 5.465 percent applied to each hospital's fiscal year 2009 net patient revenues. The total impact of the change in the rate and the base is to increase the amount collected from the hospital licensing fee to $141.8 million in FY 2011. The payment of the FY 2011 hospital licensing fee will occur in July 2011.

In addition, the 2010 General Assembly concurred with the Governor's proposal to increase a variety of fees administered by the Division of Motor Vehicles and the Department of Public Safety to generate $1.0 million of estimated additional licenses and fees departmental revenue in FY 2011.

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

The 2010 General Assembly also concurred with the Governor's proposal to reclassify non-Medicaid hospital payments received by the Department of Behavioral Health Care, Developmental Disabilities and Hospitals (formerly the Department of Mental Health, Retardation, and Hospitals) as restricted receipts. The Governor's original proposal was to commence the reclassification with FY 2011. The General Assembly advanced that date so that the reclassification would commence with FY 2010. This proposal reduces sales and services departmental receipts by $3.2 million in both FY 2010 and FY 2011.

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

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

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

The 2010 General Assembly concurred with the Governor's proposal to reclassify the payments received from local education authorities for the state administered student transportation initiative from miscellaneous departmental receipts to a restricted receipt account for FY 2010 and FY 2011. This action reduces general revenues in FY 2010 by $8.6 million and in FY 2011 by $15.5 million. The 2010 General Assembly rejected the Governor's proposal to exempt the underground storage tank fund from the State's indirect cost recovery charge but accepted the Governor's proposal to subject the telecommunication education access fund to the indirect cost recovery charge. The combination of these decisions is to increase miscellaneous revenues category of departmental receipts by $38,728 in FY 2010 and by $85,240 in FY 2011. Finally, the General Assembly accepted monies from a non-government entity to continue women's cancer screenings until June 30, 2010. This acceptance increases general revenues by $110,000 in FY 2010 only.

Departmental Receipts were approximately $318.8 million, or 10.5 percent, of the State's total general revenue in FY 2009. FY 2009 departmental receipts decreased on a nominal basis but increased as a share of total general revenues when compared to FY 2008.

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

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

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

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

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

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

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and was not extended.

On or about June 23, 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island (Case No. 09-12418). The filing was made when – after months of discussions and negotiations - the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which plan is subject to approval of the Bankruptcy Court. The consensual plan contemplates, among other things, that the lenders will remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders would become the new owners of the facility and search for a new operator for the facility to replace the Debtors. The State is represented in the bankruptcy proceedings by outside legal counsel (Willkie Farr & Gallagher LLP and Cameron & Mittleman). Progress has been made toward a successful restructuring of the companies. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual.

On or about January 2, 2010 the Debtors filed their Second Amended Disclosure Statement and Second Amended Plan with respect to the reorganization, which has the support of the key stakeholders. The Debtors have already received approval of their Second Amended Disclosure Statement. In addition, the Debtors were granted the authority to begin soliciting votes on the Second Amended Plan and the Second Amended Plan was approved by the creditors. The hearing on the Second Amended Plan, which has been continued a number of times, was scheduled for June 23, 2010. On June 23, 2010, the United States Bankruptcy Court approved the Debtors' Second Amended Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code with a few minor changes. Although the plan provides for the State to make additional investments in the marketing and management for the facility, it is not anticipated that the bankruptcy will have a significant impact on the lottery revenues the State expects to continue to receive from the facility. Legislation was introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the Debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The legislation eliminating dog racing at the facility became law with the governor's signature on May 14, 2010. The legislation authorizing the changes necessary to achieve certain requirements of the restructuring became law with the governor's signature on May 26, 2010. The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity.

The Department of Revenue, Division of State Lottery, and the Department of Business Regulation continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility would need regulatory approval. Certain applications for licensure have been submitted by the lenders to the Department of Business Regulation and these applications are currently under review. While the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River, it should be noted that on June 11, 2010 the legislature passed an Act which would authorize state-operated casino gaming at the facility; provided however, such authorization would only be effective if the qualified voters of the State approve the expansion of gambling at the facility to include casino gaming as defined under the Act and the qualified electors of

the Town of Lincoln approve the expansion of gambling at the facility to include said casino gaming. On or about June 22, 2010, the governor vetoed the Act. At this time it is not known whether the legislature will attempt to override the veto.

During the 2009 Session, it was determined that the Division of State Lottery could administratively set the hours of operation for Twin River and Newport Grand. To date, the Division of State Lottery has implemented 24 hours a day, three days a week hours of operation for both Twin River and Newport Grand. Under current law, the State's share of the revenue from 24/3 is recorded as general revenues. For FY 2010, these additional revenues are estimated to be $7.6 million. In November 2009, the Division of State Lottery promulgated rules and regulations to allow both Twin River and Newport Grand to operate VLTs on a 24 hours a day, seven days a week basis (24/7) at their discretion. This action is expected to increase the lottery transfer by $3.1 million in FY 2010. Thus, for FY 2010, an additional $10.7 million of lottery revenues is anticipated.

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

Lottery transfers to the General Fund totaled $337.5 million, which accounted for 11.2 percent of the State's total general revenues in FY 2009. The dollar amount of the lottery transfers to the General Fund decreased between FY 2009 and FY 2008 but the lottery transfers as a share of total general revenues increased.

The next largest component of Other Sources is the Other Miscellaneous category. In the 2007 Session, the General Assembly enacted legislation authorizing the Tobacco Settlement Financing Corporation to sell bonds with $195 million in net proceeds to the State, with $42.5 million allocated to the general fund in FY 2007 and $124.0 million allocated to the general fund in FY 2008.

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

The 2009 General Assembly also concurred with the Governor's proposal to transfer $1.0 million from the excess reserves of the Rhode Island Health and Educational Building Corporation. In addition, the General Assembly transferred $1.5 million of excess reserves from the Rhode Island Human Resources Investment Council. The sum of these two amounts is available as general revenues to be used to finance FY 2010 state operations.

In the 2010 Session, the General Assembly concurred with the Governor's proposal to transfer excess reserves from the State's automobile replacement fund. In addition, the General Assembly also transferred additional excess reserves from the Rhode Island Health and Educational Building Corporation (RIHEBC). The FY 2010 impact of these transfers is to increase Other Miscellaneous revenues by $4.1 million. For FY 2011, the General Assembly concurred with the Governor's recommendation to transfer $1.0 million of excess reserves from RIHEBC.

The total amount of Other Miscellaneous monies received in FY 2009 was approximately $17.8 million, which accounted for 0.6 percent of the State's FY 2009 total general revenues. For FY 2008, these amounts were $181.8 million and 5.3 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was $4.3 million in FY 2009.

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

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

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

Unclaimed property transfers totaled $8.0 million in FY 2009 and accounted for 0.3 percent of the State's total general revenues for FY 2009. The dollar amount of the unclaimed property transfer decreased as did its share of total general revenues between FY 2009 and FY 2008.

Restricted Receipts. In FY 2009, the State expended $127.8 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 2009, the State expended $2.272 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), a block grant; Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX is recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2008 to September 30, 2009, the unenhanced rate was 52.59 percent. The rate for the prior year was 52.5 percent. The provisions of ARRA include a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.93 from October 1, 2009 through December 31, 2010.

ECONOMIC FORECAST

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

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

On May 6, 2010, the Conferees heard updated economic forecasts for the nation and the State, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current

employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. These models incorporate $789 billion for the federal economic stimulus package to be spent in the 2009-2012 period, in an effort to provide relief to states and individuals, create jobs, and lift spending. Moody's Economy.com testified that the stimulus spending "provided a meaningful boost" to real U.S. Gross Domestic Product in the third quarter of 2009 but its impact is expected to subside in CY 2010. The May 2010 Revenue Estimating Conference's principals adopted through a consensus process an economic forecast for the period 2010 through 2015. The forecast is shown below.

As reported at the May 2010 Revenue Estimating Conference, Rhode Island's labor market has reached a cyclical bottom and initial unemployment claims have begun to decrease. The Rhode Island DLT reported that the original unemployment rate estimates for 2008 and 2009 had been revised downward and the state's unemployment had never actually reached 13.0 percent as originally reported in September 2009. In March 2010, the unemployment rate was 12.6 percent, the third highest in the nation, lagging the U.S. unemployment rate of 9.7 percent. There was a year-over-year increase of 15,500 unemployed Rhode Islanders in March 2010. The sector breakdown of these job losses were as follows: Manufacturing, -2,600; Trade, Transportation and Utilities, -2,800; Financial Activities, -1,200; Construction, -1,400; Professional and Business Services, -3,100; Government, -900; Leisure and Hospitality, -300; Other Services, -300, and Information, -300. Educational and Health Services posted an increase in employment of 1,100 year-over-year in March 2010. Although the Rhode Island economy as a whole has continued to experience job losses, the rate of job loss has been cut in half when comparing March 2010 to March 2009 vs. March 2009 to March 2008.

At 12.3 percent, Rhode Island's unemployment rate was the fourth highest state unemployment rate in the country in May 2010. The U.S. unemployment rate for May 2010 was 9.7 percent.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. FY 2010 is expected to show a continued contraction in non-farm employment with a -3.7 percent rate of growth. This rate of growth is of similar magnitude to FY 2009, as non-farm employment shrank at a -3.6 percent rate last fiscal year. Non-farm employment growth rates are expected to turn positive beginning in FY 2011. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion. It should be noted that the adopted growth rates suggest a trend for FY 2012 through FY 2014, that is similar to the growth rates adopted at the November 2009 Revenue Estimating Conference.

Rhode Island's unemployment rate was projected at the May 2010 Revenue Estimating Conference to peak at 12.8 percent in FY 2011. As recovery takes hold, Rhode Island's unemployment rate is projected to decline in FY 2012 to a rate of 10.7 percent and then decline below double digits to 8.5 percent in FY 2013, to 7.4 percent in FY 2014, and to 6.7 percent in FY 2015. Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the mid 2000s.

The May 2010 Revenue Estimating Conference estimates for personal income growth suggest a slight upward revision in FY 2009 through FY 2011 from the November 2009 Revenue Estimating Conference estimates. The adopted personal income growth rate is projected to decline slightly in FY 2010 before approaching more normal growth rates in FY 2012 through FY 2015. Personal income growth rates average less than 1.0 percent in FY 2010 and FY 2011. Likewise, estimates of dividend, interest and rental income are trending downward in FY 2010 before turning positive in FY 2011 through FY 2015. Wage and salary income growth is projected to be negative in both FY 2009 and FY 2010, hitting bottom at a -2.1percent rate of growth in FY 2010. Wage and salary growth rises modestly in FY 2011 before accelerating in FY 2012. Wage and salary income growth continues to accelerate in FY 2013 and FY 2014. By FY 2015, wage and salary growth is expected to achieve its normal rate of growth.

The U.S. CPI-U (Consumer Price Index for All Urban Consumers) is expected to decrease to 1.1 percent in FY 2010 from 1.4 percent in FY 2009. The projected decrease is mainly due to the lack of sufficient consumer demand that would allow for producers to raise prices. The U.S. CPI-U is forecasted to rise to 1.5 percent in FY

2011 further rising to 2.6 percent in FY 2012 and FY 2013. In FY 2014 through FY 2015, inflation is expected to be 2.2 percent on average annually.

From FY 2010 through FY 2011, the interest rate on three-month Treasury bills is expected to remain well below 1.0 percent before rising to 2.6 percent in FY 2012 and approximately 3.8 percent in FY 2013 through FY 2015. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2010 the interest rate on ten year Treasury notes are expected to be 3.6 percent rising to 5.5 percent in FY 2012 before falling to 4.6 percent in FY 2015.

The consensus economic forecast reflects the slow recovery in the global and domestic economies. Employment, income, and other coincidental economic indicators increase slowly over the next fiscal year before accelerating in FY 2012 or FY 2013. The forecast further suggests that self-sustainable economic recovery can be expected beginning in FY 2012. The May 2010 forecast revisions to the November 2009 economic forecast are largely positive, reflecting an earlier onset of recovery for the State. Any increase in current revenue estimates through FY 2013 will nonetheless remain muted. The Consensus Economic Forecast for the fiscal years 2010 through 2015 agreed upon by the conferees at the May 2010 Revenue Estimating Conference is shown in the following table.

The May 2010 Consensus Economic Forecast

Rates of Growth	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Non-farm Employment	-3.7	0.2	2.5	3.3	2.5	1.4
Personal Income	0.4	1.5	3.7	4.9	4.8	4.0
Wage and Salary Income	-2.1	0.5	3.1	4.9	4.7	3.8
Dividends, Interest and Rent	-1.9	1.3	2.7	6.3	7.6	6.4
Nominal Rates						
U.S. CPI-U	1.1	1.5	2.6	2.6	2.3	2.1
Unemployment Rate	12.6	12.8	10.7	8.5	7.4	6.7
Ten Year Treasury Notes	3.6	4.3	5.5	5.2	4.7	4.6
Three Month Treasury Bills	0.1	0.6	2.6	3.8	3.8	3.7

According to the April 2010 forecast of Moody's Economy.com, the decline in Rhode Island's house prices will reach bottom in mid-2010 but Rhode Island home prices will still be 70.0 percent higher than their level at the beginning of 2000. By the time housing prices hit bottom, the Federal Housing Finance Administration repeat-purchase price index is projected to have dropped by 20.5 percent from its peak in the first quarter of 2007. According to Moody's Economy.com, the housing price correction for Rhode Island will be larger than the U.S. average, but smaller than the hardest hit metro areas in southern California and Florida. Moody's Economy.com estimates that housing starts for the State topped out at around 3,500 units in the first quarter of 2006. As of March 2010, the number of starts was above 800 units at an annual rate and close to double what it had been in January 2009. According to the Rhode Island Real Estate Association, single-family home sales for all of 2009 have risen 15.9 percent compared with 2008.

The Moody's Economy.com forecast notes that mortgage credit quality has finally begun to turn in Rhode Island. According to data from Equifax, the delinquency and default rate on home mortgages has leveled off with the rate of foreclosures falling from 1.5 percent to 1.1 percent in the last two quarters of 2009. This rate remains higher than that of any other New England state, and is expected to remain so throughout the recession and subsequent recovery. The finances of foreclosed homeowners will take a considerable time to repair, especially as the recession and high re-default rates are still pushing down the level of loan modifications though the new changes to the Home Affordable Modification Plan might have greater impact on reducing foreclosures over the next two years.

The Mortgage Bankers' Association data indicate that the increases in delinquencies are concentrated in adjustable rate mortgages (ARMs), particularly subprime ARMs. In recent years, an overpriced housing market pushed more than one-third of the State's homebuyers to use ARMs; many of them of the interest-only variety. Although practically all of these ARMs have reset from their initial teaser rates, they are still subject to smaller resets throughout the terms of the loans. As resets impact on many of the ARMs, homeowners have been hard pressed to keep current on their loans and are thus forced to sell their homes at a time when housing demand is slowing. In fact, the Rhode Island dollar-weighted default rates on first mortgages remain the highest in New England and the foreclosure rate for Rhode Island in the fourth quarter of 2009 was 1.1 percent, still the highest in New England and the second highest in the Northeast behind New Jersey. Not surprisingly, mortgage credit has been difficult to come by in the last two years and likely will remain difficult to come by in the near future.

REVENUE ESTIMATES

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

The Revenue Estimating Conference (REC) met on May 5, 6 and 10, 2010, in open public meetings. The Conference issued a final estimate for FY 2010 and a revised estimate of FY2011 revenues. Based on collections trends, preliminary closing results, and the revised economic forecast, the Conference revised the FY 2010 estimates upward by $78.3 million from the November 2009 Revenue Estimating Conference estimate to a total of $3.025 billion for FY 2010. The final FY 2010 estimates do include $23.3 million of additional revenues from certain proposals that were contained in the Governor's FY 2010 Supplemental Budget. The included proposals and the revenue associated with each are as follows: (1) Sale of the site of the old Training School in Cranston, $5.2 million; (2) Sale of the site of the State's old Central Computer Facility in Johnston, $1.4 million; (3) Sale of 2 Metacom Avenue in Bristol, $2.8 million; (4) Voluntary payments from the State's privately owned residential facilities for adults with developmental disabilities, $6.0 million; (5) Recovered child support collections that were due and payable in prior fiscal years, $7.2 million; and (6) Transfer of aged bail accounts by the Judiciary and forfeited property by the State Police, $641,250.

Estimated deposits of $71.0 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2010 as a result of the constitutional funding formula which calculates annual contributions. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.6 percent of estimated revenues in FY 2010 and 97.4 percent of estimated revenues in FY 2011.

Final Adopted FY 2010 General Revenues

The May 2010 Revenue Estimating Conference estimated general revenues of $3.025 billion, a change of 0.0 percent from the audited FY 2009 level. Relative to the November 2009 REC FY 2010 adopted estimate, the final adopted FY 2010 estimate of total general revenues is $78.3 million more or 2.7 percent. The final adopted FY 2010 revenue estimate presumes that the State's general revenues regain tax revenues in FY 2010 that previously were lost from several taxes due to the historic structures tax credit which will now be paid from revenue bonds issued in June 2009 by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a further discussion of the revenue bonds issued to fund the Historic Preservation Tax Credit Fund.

The largest source of final adopted FY 2010 general revenues is the Personal Income Tax, with estimated receipts of $918.5 million. The final adopted estimate for Personal Income Tax receipts are $700,000 less than the November 2009 REC estimate, or -0.1 percent. Personal Income Taxes are expected to comprise 30.4 percent of total general revenues in FY 2010. Relative to final FY 2009 collections, the final adopted FY 2010 revenue estimate for Personal Income Taxes are $22.0 million less, yielding a growth rate of -2.3 percent. The final adopted FY 2010 revenue estimate for Personal Income Taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through May, 2010, these redemptions totaled $18.8 million.

Sales and Use Tax collections are estimated to total $787.5 million in the final adopted FY 2010 revenue estimates. The final adopted estimate for Sales and Use Tax collections are $36.5 million more than the estimate adopted at the November 2009 Revenue Estimating Conference. This is a growth rate of 4.9 percent. The final adopted FY 2010 revenue estimate for Sales and Use Taxes signifies negative growth of -2.5 percent over audited FY 2009 collections. Sales and Use Taxes are anticipated to contribute 26.0 percent to total general revenues in FY 2010.

Motor Vehicle Operator License and Vehicle Registration Fees are estimated at $49.0 million in the final adopted FY 2010 revenue estimate. This is an increase of $400,000 from the FY 2010 estimate adopted at the November 2009 REC, an increase of 0.8 percent. Relative to final FY 2009 collections, the final adopted FY 2010 estimate for Motor Vehicle licenses and fees is 2.2 percent more and is projected to comprise 1.6 percent of all general revenues in FY 2010.

The final adopted FY 2010 estimate for Motor Carrier Fuel Use Taxes is $1.0 million, which is $325,034 less than final FY 2009 collections. There is no change in the final adopted estimate for Motor Carrier Fuel Use taxes from the FY 2010 estimate adopted at the November 2009 REC.

Cigarette Taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, are estimated to total $139.6 million in final adopted FY 2010 revenue estimates. The final adopted FY 2010 estimate is a decrease of $700,000 from the estimate for FY 2010 adopted at the November 2009 Revenue Estimating Conference, a decrease of 0.5 percent. Compared to audited FY 2009 cigarette taxes collections, the revised estimate is an increase of $9.1 million, or 7.0 percent.

Alcohol Taxes are projected at $11.5 million for FY 2010 based on the May 2010 Revenue Estimating Conference, an increase of 6.4 percent from final FY 2009 collections. Relative to the November 2009 REC FY 2010 estimate, this revision is an increase of $500,000 or 4.5 percent.

General Business Taxes are projected to comprise 11.7 percent of final adopted total general revenue collections in FY 2010. Business Corporations Tax revenues are estimated at $115.0 million, an increase of $20.9 million from the estimate adopted at the November 2009 Revenue Estimating Conference. This is an increase of 22.2 percent. Business Corporations Tax collections are estimated to be 10.1 percent more than final FY 2009 collections. Business Corporations Taxes are expected to constitute 3.8 percent of final adopted total general revenues in FY 2010. The final adopted FY 2010 Business Corporations Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes. Through May 31, 2010 these redemptions totaled $669,379.

Health Care Provider Assessments are estimated at $40.0 million in the final adopted FY 2010 revenue estimate. At the November 2009 REC FY 2010 Health Care Provider Assessments were estimated at $34.9 million or $5.1 million less than the final adopted FY 2010 revenue estimate. These estimates incorporate the fact that the assessment on residential facilities for the developmentally disabled has been discontinued for services provided after June 30, 2009. Compared to FY 2009 audited health care provider assessment collections, the final adopted estimate represents a decrease of 13.1 percent.

Insurance Companies Gross Premiums Taxes are estimated at a total of $98.0 million for FY 2010 as adopted at the May 2010 Revenue Estimating Conference and are forecasted to be 25.6 percent higher than final FY 2009 collections. Relative to the FY 2010 November 2009 REC estimate, the final adopted FY 2010 estimate is $18.0 million, or 22.5 percent, more. The final adopted FY 2010 Insurance Companies Gross Premiums Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against Insurance Companies Gross Premiums taxes. Through May 31, 2010, these redemptions totaled $25.2 million. Insurance Companies Gross Premiums Taxes are projected to comprise 3.2 percent of final adopted total general revenues in FY 2010.

The final adopted FY 2010 Financial Institution Taxes estimate is $2.9 million. Financial Institutions Taxes are anticipated to represent 0.1 percent of total final adopted general revenues in FY 2010. The final adopted

FY 2010 Financial Institutions taxes estimate is $900,000 more than the FY 2010 estimate adopted at the November 2009 REC, an increase of 45.0 percent. Relative to audited FY 2009 collections, the final adopted FY 2010 estimate for Financial Institutions Taxes is 45.9 percent less. The Financial Institutions Tax estimate for FY 2010 has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through May 31, 2010, there have been $188,525 of redemptions of historic structures tax credit certificates against Financial Institutions taxes.

Final adopted FY 2010 Bank Deposits Taxes are projected to total $2.2 million, an increase of $400,000 over the revised FY 2010 estimate adopted at the November 2009 REC. The final adopted FY 2010 revenue estimate of Bank Deposits Taxes yields a growth rate of 22.0 percent when compared to final FY 2009 collections.

The final adopted FY 2010 Public Utilities Gross Earnings Taxes estimate is projected at $97.0 million and comprises 3.2 percent of final adopted total general revenues in FY 2010. Compared to the November 2009 REC estimate of FY 2010 Public Utilities Gross Earnings taxes, this is a decrease of $23.0 million or -19.2 percent. The final adopted estimate represents a decrease of 23.4 percent over final FY 2009 Public Utilities Gross Earnings tax collections.

Inheritance and Gift Taxes are estimated at $28.0 million in the final adopted FY 2010 revenue estimate, which is an increase of 6.1 percent, or $1.6 million, from the FY 2010 revised estimate adopted at the November 2009 Revenue Estimating Conference. These estimates incorporate the increase in the State's estate tax exemption amount to $850,000 effective for decedents whose death occurs after December 31, 2009. At $28.0 million, the final adopted FY 2010 estimate for Inheritance and Gift Taxes are expected to constitute 0.9 percent of final adopted total general revenues. The final adopted FY 2010 revenue estimate for Inheritance and Gift Taxes is 0.3 percent less than audited FY 2009 collections.

The final adopted FY 2010 revenue estimate for Realty Transfer Taxes is projected at $6.9 million, which is an increase of 6.2 percent over the revised estimate adopted in November 2009. The final adopted estimate for Realty Transfer Taxes represents growth of 1.3 percent from final FY 2009 levels.

Racing and Athletics Taxes are estimated at $1.5 million in the final adopted FY 2010 budget, a decrease of $500,000 from the FY 2010 estimate adopted at the November 2009 Revenue Estimating Conference. The final adopted estimate represents a decline of $950,809, or –38.8 percent, from audited FY 2009 collections. The final adopted FY 2010 estimate for Racing and Athletics Taxes accounts for the fact that only 125 days of greyhound racing will be held at Twin River during the fiscal year.

The total final adopted FY 2010 revenue estimate for all Other Taxes is 1.1 percent of final adopted total general revenues in FY 2010.

Final adopted FY 2010 departmental receipts are estimated at $342.0 million, the same level as was adopted at the November 2009 Revenue Estimating Conference. Final adopted FY 2010 departmental receipts comprise 11.3 percent of final adopted total general revenues in FY 2010. Relative to final FY 2009 departmental receipt collections, the final adopted FY 2010 revenue estimate for departmental receipts yields a growth rate of 7.3 percent. In the licenses and fees category of departmental receipts, $128.8 million is expected for FY 2010 as a result of the hospital licensing fee being assessed at 5.237 percent of the hospital's FY 2008 net patient revenues.

The Other Sources component total of $384.1 million in the final adopted FY 2010 general revenue estimate represents an increase of $22.7 million, or 5.1 percent over the revised FY 2010 general revenue estimate adopted at the November 2009 REC. The final adopted FY 2010 estimate is an increase of 4.5 percent, or $16.4 million, compared to audited FY 2009 Other Sources collections. Final adopted Other Sources revenues are expected to comprise 12.7 percent of total general revenues for FY 2010.

The final adopted FY 2010 revenue estimate for Other Miscellaneous Revenues is $26.5 million more than the FY 2010 estimate adopted at the November 2009 Revenue Estimating Conference and $13.0 million more than the final FY 2009 level, an increase of 72.7 percent. In FY 2009, Other Miscellaneous Revenues included a $7.5 million transfer from the Rhode Island Resource Recovery Corporation. This transfer does not recur in FY 2010.

Other Miscellaneous Revenues are projected at $30.1 million in final adopted FY 2010 revenue estimate, amounting to 1.0 percent of all general revenues.

Within the Gas Tax Transfer component, the final adopted FY 2010 revenue estimate reflects the fact that no portion of the State's $0.32 per gallon gas tax is available for use as general revenue. Thus, the Gas Tax Transfer is estimated at zero for the final adopted FY 2010 budget just as it was in the FY 2010 estimate adopted at the November 2009 Revenue Estimating Conference. Relative to the audited FY 2009 transfer, the FY 2010 gas tax transfer is 100.0 percent less.

Within the Lottery category, the final adopted FY 2010 revenue estimate of $347.7 million is $4.2 million, or 1.2 percent, less than the revised FY 2010 estimate adopted at the November 2009 Revenue Estimating Conference. The final adopted estimate for FY 2010 incorporates the fact that the Rhode Island and Massachusetts lotteries can now sell MegaMillions and PowerBall tickets respectively. Prior to January 31, 2010, Rhode Island could only sell PowerBall tickets while Massachusetts could only sell MegaMillions tickets. The revised FY 2010 estimate for the Lottery Transfer also incorporated this change. The final adopted FY 2010 Lottery Transfer estimate is $10.2 million more than the audited FY 2009 transfer an increase of 3.0 percent. The final adopted FY 2010 lottery transfer estimate comprises 11.5 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. This transfer is expected to increase by $400,000 in the final adopted FY 2010 revenue estimate vs. the FY 2010 estimate adopted at the November 2009 REC. The final adopted FY 2010 estimate is a decrease of $2.4 million or ─30.4 percent, from the final FY 2009 transfer. The final adopted FY 2010 revenue estimate for the Unclaimed Property transfer is projected to be $5.6 million and is expected to comprise 0.2 percent of all general revenues.

Final Enacted FY 2010 Revenue Changes

The General Assembly's FY 2010 Final Enacted Budget was passed on June 4, 2010. The General Assembly's FY 2010 Final Enacted Budget has $5.6 million less in total general revenues vis-à-vis total general revenues adopted at the May 2010 Revenue Estimating Conference. The net decrease in final enacted total general revenues is comprised of a net decrease of $9.8 million in Departmental Receipts and an increase of $4.1 million in Other Sources revenues.

Within Department Receipts, the General Assembly enacted legislation that converts the revenues collected from local school departments under the Statewide Student Transportation Initiative from general use to restricted receipts. This designation would require that all payments collected for the Statewide Student Transportation Initiative be used exclusively for that purpose. The result of this change is a decrease in Departmental Receipts of $8.6 million and a concomitant increase in Restricted Receipts of $8.6 million. In addition, the General Assembly's FY 2010 Final Enacted Budget contains legislation that reclassifies Non-Medicaid board and support payments for patients at Slater and Zambarano Hospitals from general revenue to restricted receipts. The result of this reclassification is a decrease in Departmental Receipts of $3.2 million and a resultant increase in Restricted Receipts of $3.2 million. Further, the General Assembly's Final Enacted Budget rejects the Governor's proposal to exempt the Underground Storage Tank Replacement Fund from the State's 10.0 percent indirect cost recovery charge but accepts the Governor's proposal to reduce the fee assessed on landline phones that is used to finance the Telecommunication Education Access Fund from $0.26 per month to $0.15 per month and expand the base of assessment to include wireless phones. The Telecommunication Education Access Fund is a restricted receipt account and is subject to the State's indirect cost recovery charge of 10.0 percent. The combination of these two actions results in an increase in Departmental Receipts of $38,728 in FY 2010. In addition, the FY 2010 Final Enacted Budget includes $110,000 donated to the Department of Health to continue cancer screenings for low income women through the end of the fiscal year. Finally, the General Assembly's FY 2010 Final Enacted Budget increases the Hospital Licensing Fee from 5.237 percent of the hospital's FY 2008 net patient revenues to 5.314 percent assessed on the same base. This increase in the rate of the Hospital Licensing Fee results in an increase in Departmental Receipts of $1.9 million in FY 2010.

The General Assembly's FY 2010 Final Enacted Budget enacts revenue enhancements of $4.1 million that are included in the total for Other Miscellaneous Revenues. These enhancements are comprised of a transfer of $3.6

million from the State's automobile replacement fund, and $500,000 from an additional transfer of the excess reserves of the Rhode Island Health and Educational Building Corporation.

The net decrease of $5.6 million in revenues contained in the General Assembly's FY 2010 Final Enacted Budget is -0.2 percent below the $3.025 billion estimated total general revenues adopted at the May 2010 Revenue Estimating Conference. The General Assembly's FY 2010 Final Enacted Budget reflects a decrease of 0.2 percent in total general revenues when compared to final audited FY 2009 total general revenues.

Revised FY 2011 General Revenues

The conferees of the May 2010 Revenue Estimating Conference adopted revised general revenue estimates for FY 2011 ("Revised FY 2011 Estimates") of $2.899 billion, a decrease of 4.0 percent from the FY 2010 Final Enacted Budget of $3.019 billion. The Revised FY 2011 Estimates do not include collections attributable to the Hospital Licensing Fee. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee was enacted for FY 2011 at that time. All references to FY 2011 total general revenues do not include the value of the Hospital Licensing Fee which is estimated at $130.7 million in the final enacted FY 2010 budget. The Revised FY 2011 Estimate assumes the State regains tax revenues in FY 2011 formerly lost from several taxes due to the historic structures tax credit, which will now be paid from proceeds from revenue bonds that were issued by the Economic Development Corporation for that purpose.

The largest source of revised FY 2011 general revenues is the Personal Income Tax, with estimated receipts of $937.9 million, $19.4 million more, or 2.1 percent greater, than the final enacted estimate for FY 2010. Personal Income Taxes are expected to comprise 32.4 percent of total revised general revenues in FY 2011. The estimated FY 2011 Personal Income Taxes estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against personal income taxes.

Sales and Use Tax collections are estimated at a total $787.0 million in the Revised FY 2011 Estimates. The Revised FY 2011 Estimate yields growth of –0.1 percent over the final enacted FY 2010 Sales and Use tax estimate. Sales and Use Taxes are anticipated to contribute 27.1 percent to total revised general revenues in FY 2011.

Motor Vehicle operator license and vehicle registration fees are estimated to equal $48.5 million in the Revised FY 2011 Estimate. Relative to the final enacted FY 2010 estimate, the Revised FY 2011 Estimate for Motor Vehicle licenses and fees is down $500,000, or –1.0 percent. Motor Carrier Fuel Use Taxes are estimated at $1.0 million in the Revised FY 2011 Estimate, the same level as was estimated for final enacted FY 2010.

The Cigarette excise tax component is estimated at $134.0 million in the Revised FY 2011 Estimate, a decrease of $5.6 million, or -4.0 percent from the final enacted FY 2010 level. Cigarette taxes are expected to comprise 4.6 percent of revised total general revenues in FY 2011.

Alcohol Taxes are estimated at $11.7 million in the Revised FY 2011 Estimate, an increase of $200,000, or 1.7 percent over the final enacted FY 2010 estimate. Alcohol taxes are projected to make up 0.4 percent of total revised general revenues in FY 2011.

General Business Taxes are estimated to be $360.0 million in the Revised FY 2011 Estimate and represent 12.4 percent of total general revenue collections in the Revised FY 2011 Estimate. Business Corporations Tax revenues are estimated to yield $119.0 million in the Revised FY 2011 Estimate, an increase of $4.0 million or 3.5 percent over the final enacted FY 2010 estimate. Business Corporations Taxes are expected to constitute 4.1 percent of total revised general revenues in FY 2011. The revised FY 2011 Business Corporations Tax estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against business corporations taxes.

The revised FY 2011 Health Care Provider Assessments estimate is $39.8 million, which is $200,000 lower than the level contained in the final enacted FY 2010 estimate. This is a decrease of 0.5 percent. The Health Care Provider Assessment is anticipated to comprise 1.4 percent of revised FY 2011 general revenues.

Insurance Companies Gross Premiums Taxes are revised to a total of $100.0 million in FY 2011. Insurance Companies Gross Premiums Taxes are expected to be 2.0 percent higher than the final enacted FY 2010 estimate. They will comprise 3.4 percent of total revised general revenues in FY 2011. The revised FY 2011 Insurance Companies Gross Premiums Tax estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against insurance companies gross premiums taxes.

FY 2011 Financial Institution Taxes are revised to $1.9 million less than the FY 2010 final enacted estimate. At a total of $1.0 million, Financial Institutions Taxes represent less than 0.1 percent of total revised general revenues in FY 2011. Relative to the final enacted FY 2010 estimate, the Revised FY 2011 Estimate of Financial Institutions Taxes is 65.5 percent less. The Revised FY 2011 Estimate of Financial Institutions Tax has been grossed up to reflect the reimbursement of the State from the proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

Revised FY 2011 Bank Deposits Taxes are estimated at the same level as in the final enacted FY 2010 budget, a total of $2.2 million, and comprise 0.1 percent of total revised general revenues.

The Public Utilities Gross Earnings Taxes reflected in the Revised FY 2011 Estimate are $1.0 million more than the final enacted FY 2010 estimate. The revised FY 2011 Public Utilities Gross Earnings Taxes are $98.0 million and comprise 3.4 percent of total revised general revenues in FY 2011. The FY 2011 Public Utilities Gross Earnings Tax revised estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against Public Utilities Gross Earnings taxes.

Inheritance and Gift Taxes are revised to $27.6 million for FY 2011. This revised revenue estimate includes one full year's worth of the increase in the exemption amount above which an estate becomes subject to Rhode Island's estate tax. The revised revenue loss from this change in the estate tax exemption amount is approximately $1.6 million in FY 2011. The FY 2011 Inheritance and Gift Taxes are expected to constitute 1.0 percent of total revised general revenues. The Revised FY 2011 Estimate for Inheritance and Gift Taxes is 1.4 percent less than the final enacted FY 2010 estimate.

Realty Transfer Taxes reflected in the Revised FY 2011 Estimate are estimated at the same level as in the final enacted FY 2010 estimate. Thus, revised Realty Transfer Taxes are estimated to be $6.9 million and are expected to comprise 0.2 percent of revised total general revenues in FY 2011. Racing and Athletics Taxes are revised for FY 2011 to $100,000 above the level contained in the final enacted FY 2010 estimate. This estimate represents an increase of 6.7 percent from final enacted FY 2010 levels. The increase is due to the fact that at the time of the May 2010 Revenue Estimating Conference current law required 125 days of live greyhound racing per calendar year. Racing and Athletics Taxes revised for FY 2011 are $1.6 million. The revised total of all Other Taxes is 1.2 percent of total revised general revenues in FY 2011.

Departmental Receipts reflected in the Revised FY 2011 Estimate are expected to generate $111.3 million less than the final FY 2010 level enacted by the General Assembly. This difference is more than accounted for by the fact that the Revised FY 2011 Estimate for departmental receipts does not include the Hospital Licensing Fee which is estimated to generate $130.7 million in the final enacted FY 2010 budget. The Revenue Estimating Conference does not estimate the Hospital Licensing Fee because it is authorized annually by the General Assembly and therefore is not considered current law beyond the single year authorized. FY 2011 departmental receipts represent 7.6 percent of total revised general revenues in FY 2011. Relative to final enacted FY 2010 departmental receipt levels, the revised FY 2011 estimate of departmental receipts yields a growth rate of -33.5 percent.

The Other Sources component in the Revised FY 2011 Estimate is $358.3 million, which represents a decrease of 6.8 percent, or $26.4 million, compared to the final enacted FY 2010 Other Sources estimate. FY 2011 Other Sources revised revenues are expected to comprise 12.5 percent of total revised general revenues.

The May 2010 Revenue Estimating Conference's revised FY 2011 estimate for Other Miscellaneous Revenues is $30.7 million lower than the final enacted FY 2010 estimate, a decrease of 87.6 percent. Other

Miscellaneous Revenues are estimated at $5.3 million in the Revised FY 2011 Estimate amounting to 0.1 percent of all general revenues.

Within the Gas Tax Transfer component, the May 2010 Conference's revised FY 2011 estimate shows no change from the final enacted FY 2010 estimate. The Gas Tax Transfer is estimated at zero due to the fact that the general fund no longer receives an allocation from the Intermodal Surface Transportation Fund (ISTF). That is, all of the revenue generated from the state's $0.32 per gallon motor fuel tax now remains with the ISTF and is reserved for transportation purposes.

In revised FY 2011, the Lottery Transfer is estimated to be $351.6 million and comprises 12.1 percent of total revised general revenues for FY 2011. Within the Lottery category, the Revised FY 2011 Estimate is $3.9 million greater than the final enacted FY 2010 transfer, an increase of 1.1 percent. The FY 2011 estimate incorporates both 24/7 operations at the State's video lottery terminal facilities and the cross selling of MegaMillions and PowerBall in the states of Rhode Island and Massachusetts.

The final category of general revenues is the Unclaimed Property transfer. In the Revised FY 2011 Estimate, this transfer is estimated at an amount of $6.0 million, an increase of $400,000, or 7.1 percent, from the final enacted FY 2010 transfer. The Unclaimed Property transfer is expected to comprise 0.2 percent of all revised total general revenues in FY 2011.

FY 2011 Enacted Revenues

The General Assembly's enacted FY 2011 budget estimates general revenues of $3.020 billion, a less than 0.1 percent increase from the final enacted FY 2010 level. The General Assembly's enacted revenue is comprised of $2.899 billion of revenue estimated at the May 2010 Revenue Estimating Conference and $120.9 million of changes to the revised estimates.

The largest source of enacted FY 2011 general revenues is the Personal Income Tax, with estimated receipts of $937.9 million, the same level as the May 2010 REC revised estimate for FY 2011 or growth of 2.1 percent from the final enacted FY 2010 amount.

General Business taxes are projected to represent 12.0 percent of enacted total general revenue collections in the FY 2011 budget. Business Corporations Tax revenues are expected to yield $119.0 million, the same amount as was estimated for FY 2011 at the May 2010 REC. The estimated growth rate in Business Corporations taxes over the final enacted FY 2010 revised level is 3.5 percent.

Insurance Companies Gross Premiums taxes are projected to reach $101.2 million in the enacted FY 2011 budget. This amount is equal to the revenue estimate for Insurance Companies Gross Premiums taxes adopted at the May 2010 Revenue Estimating Conference and also includes an increase in revenue of $150,000 from the extension of the insurance companies gross premiums tax to contacts of insurance written by the joint underwriting association for medical malpractice insurance and an increase in revenue of $1.1 million from the increase in the tax rate from 3.0 percent to 4.0 percent on contracts of insurance offered by surplus line brokers. The recommended growth rate in enacted FY 2011 Insurance Companies Gross Premiums taxes over the FY 2010 final enacted estimate is 3.3 percent.

FY 2011 enacted revenues for the Public Utilities Gross Earnings tax, the Financial Institutions tax, the Bank Deposits tax, and the Health Care Provider Assessment are at the same levels as were adopted at the May 2010 Revenue Estimating Conference. The respective FY 2011 enacted growth rates for these taxes relative to the FY 2010 final enacted estimates are 1.0 percent, -65.5 percent, 0.0 percent, and -0.5 percent respectively.

Sales and Use Tax collections are expected to yield $787.0 million in enacted FY 2011, the same level that was adopted at the May 2010 Revenue Estimating Conference for FY 2011. The General Assembly's FY 2011 enacted estimate signifies growth of -0.1 percent over the FY 2010 final enacted estimate. Sales and Use Taxes are anticipated to contribute 26.1 percent to enacted total general revenues in FY 2011.

Motor Vehicle operator license and vehicle registration fees are enacted at $48.5 million in FY 2011 the same level that was adopted at the May 2010 REC. Motor Carrier Fuel Use Taxes are enacted at $1.0 million in FY 2011 and Cigarettes tax revenues are enacted at $134.0 million. Each of these enacted revenue amounts are the same as the estimates adopted at the May 2010 Revenue Estimating Conference. Alcohol Tax revenues are projected to increase by $200,000 or 1.7 percent in enacted FY 2011 from the final enacted FY 2010 estimate.

Inheritance and Gift Taxes are projected to equal the $27.6 million amount adopted at the May 2010 Revenue Estimating Conference. Realty Transfer Taxes are estimated at the same level adopted at the May 2010 Revenue Estimating Conference and the final enacted estimate for FY 2010, with anticipated collections of $6.9 million. Racing and Athletics Taxes are enacted at $300,000 below the level adopted at the May 2010 Revenue Estimating Conference. This revision downward reflects the law signed by the Governor that prohibits the Department of Business Regulation from licensing dog racing or the operation of a dog track in the Town of Lincoln, where Twin River is located. The enacted estimate represents a decline of 13.3 percent, from the final enacted FY 2010 estimate. Total Racing and Athletics Taxes are projected in FY 2011 to be $1.3 million. Other taxes will comprise 1.2 percent of enacted total general revenues in FY 2011.

Enacted FY 2011 Departmental Receipts are expected to generate $13.0 million more than the final enacted FY 2010 budget. Inclusive of the General Assembly's enacted changes to Departmental Receipts, total departmental revenues are expected to be $345.2 million in FY 2011, or 11.4 percent of total general revenues. In the licenses and fees category, $143.2 million more is expected due primarily to the General Assembly's reinstatement of the Hospital Licensing fee for one year at a rate of assessment of 5.465 percent on a base of hospital FY 2009 net patient revenues. The FY 2011 enacted departmental revenues figure includes the following changes to the Departmental Receipts estimate adopted at the May 2010 Revenue Estimating Conference:

- An increase of $141.8 million from reinstituting the Hospital Licensing Fee;
- An increase of $625,000 from the imposition of a $25 fee for road tests performed by the Division of Motor Vehicles;
- An increase of $130,000 from increasing the fee for a State Issued Identification Card to $25;
- An increase of $116,000 from increasing the motor vehicle dealers license fee to $300 annually;
- An increase of $34,500 from increasing the motor vehicle manufacturer / distributor license fee to $300 annually;
- An increase of $44,000 from increasing the flashing lights permit fee to $25 annually;
- An increase of $37,400 from increasing the registration fee for school buses to $25;
- An increase of $26,910 from increasing the fee for an accident report to $15;
- An increase of $350,000 from changing the method by which prepaid wireless phones are assessed the State's E-911 Telecommunications Service fee;
- A decrease of $3,198,849 from the reclassification of board and support fees for patients at Slater and Zambarano Hospitals from general revenue to restricted receipts;
- A decrease of $15,640,000 from the reclassification of receipts received for the statewide student transportation initiative from general revenue to restricted receipts;
- An increase of $85,240 from not exempting the Underground Storage Tank Replacement Fund from the indirect cost recovery assessment and applying the indirect cost recovery assessment to the Telecommunication Education Access Fund which is expected to have increased revenues in FY 2011;

The FY 2011 enacted revenues for the other sources component totals $357.5 million, a decrease of $4.5 million, or -1.2 percent, compared to the revised revenue estimate for FY 2011 adopted at the May 2010 Revenue Estimating Conference. The change in other sources of revenue is primarily due to the decrease in the Lottery Transfer of $5.5 million. Of this amount $985,000 is due to the increase in Newport Grand's share of the net terminal income it generates to be on par with the share that Twin River receives of the net terminal income it

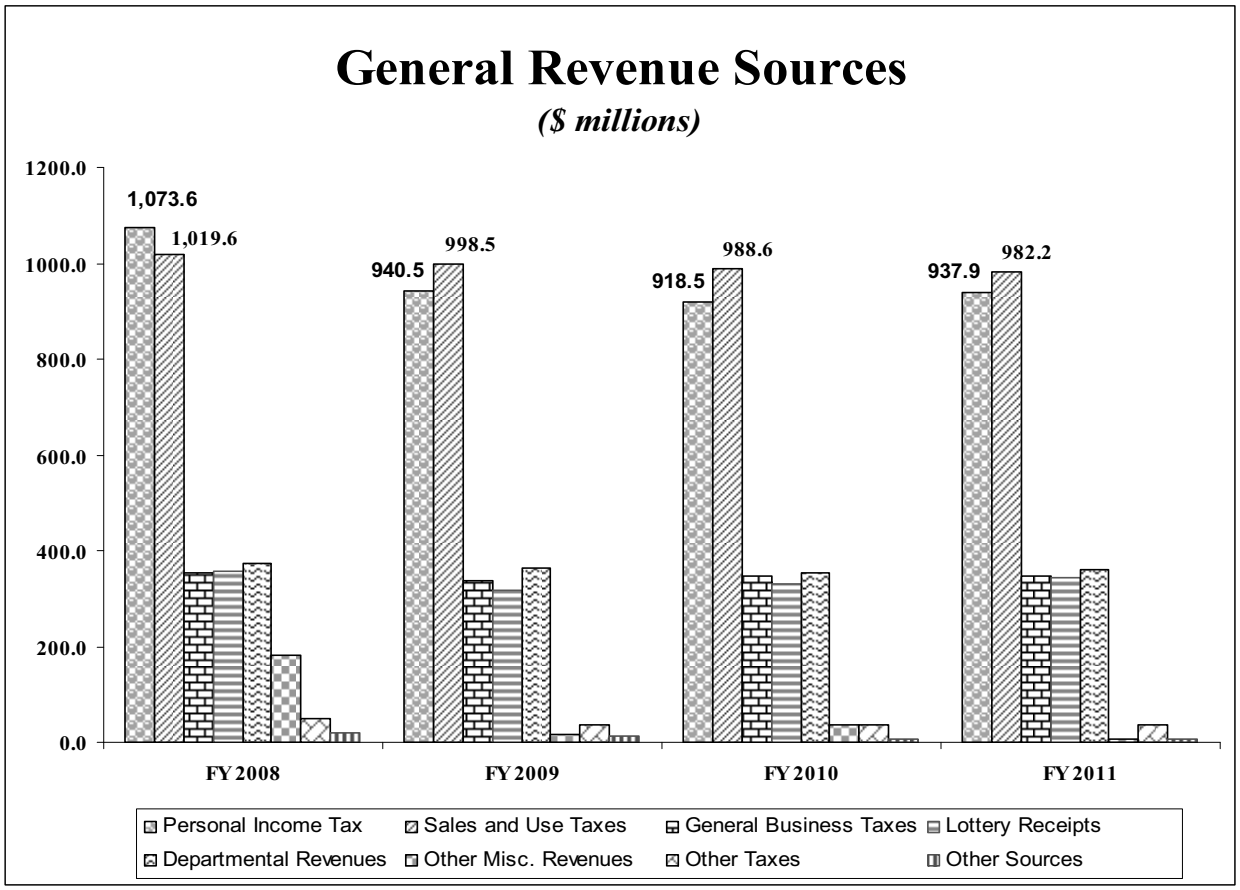
generates. The increase in Newport Grand's share of its net terminal income reduces the State's share of the same. There is a $3.7 million decrease in the Lottery Transfer that is the result of the legislation the Governor signed into law to assist Twin River's emergence from bankruptcy. This law requires the State to provide Twin River with an increased share of the net terminal income it generates in order to finance Promotional Points and Marketing Programs for Twin River. Finally, there is a $800,280 decrease in the State's share of the net terminal income generated by Twin River to accommodate the enhanced payment to the Town of Lincoln during the weeks' in which Twin River operates 24 hours a day. The Lottery Transfer is anticipated to generate $346.1 million in enacted FY 2011 a decrease of $1.6 million from the level adopted in the final enacted FY 2010 budget. In FY 2011, the Lottery Transfer is expected to comprise 11.5 percent of total general revenues.

Other Miscellaneous Revenues are anticipated to generate $5.3 million in FY 2011, an increase of $1.0 million from the level adopted at the May 2010 Revenue Estimating Conference. This increase is attributable to a transfer of $1.0 million in excess reserves from the Rhode Island Health and Educational Building Corporation. The enacted FY 2011 estimate is $29.7 million, or 84.8 percent, less than the final enacted FY 2010 Other Miscellaneous Revenues estimate.

Within the Gas Tax Transfer component, the General Assembly's FY 2011 budget shows no change from the FY 2010 revised estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's $0.32 per gallon gas tax.

The final category of general revenue receipts is the Unclaimed Property Transfer. In enacted FY 2011, this transfer is expected to increase by $400,000, or 7.1 percent, from the final enacted FY 2010 estimate. The Unclaimed Property Transfer is projected to be $6.0 million in enacted FY 2011 and comprise 0.2 percent of all general revenues. The enacted FY 2011 estimate for the Unclaimed Property Transfer is the same amount as was adopted at the May 2010 Revenue Estimating Conference.

The following chart shows the sources of general revenues for the period FY 2008 – FY 2011. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted. The general revenue amounts reflected in the chart for FY 2008 and FY 2009 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. The general revenue amounts reflected in the chart for FY 2010 and FY 2011 are the amounts reflected in the currently enacted budgets for FY 2010 and FY 2011.



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2008 through 2011 and expenditures for the fiscal years 2008 through 2011. General Fund data on expenditures for FY 2008 and FY 2009 is derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. Expenditures for the Original Enacted FY 2010 reflect the budget enacted by the General Assembly in June 2009. Expenditures for Final Enacted FY 2010 reflect the supplemental budget enacted by the General Assembly in June 2010. The expenditures for FY 2011 reflect those contained in the FY 2011 Budget enacted by the General Assembly in June 2010. The General Assembly included $67.9 million of undistributed savings in the Department of Administration in FY 2010, which required agency budgets to be reduced further during FY 2010 and the reduction was allocated from the Department of Administration across State government. Expenditures for the Final Enacted FY 2010 Budget reflect the allocation of $67.9 million of undistributed savings which were budgeted in the Department of Administration. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted sources.

General Fund revenues for FY 2008 and FY 2009 reflect the audited actual revenues as reported by the State Controller. FY 2010 Original Enacted revenues reflect those estimated at the May 2009 Revenue Estimating Conference adjusted by changes enacted by the 2009 General Assembly in the 2010 Budget. FY 2010 Final Enacted reflects the May 2010 Revenue Estimating Conference revenues including proposed statutory changes contained in the FY 2010 supplemental budget enacted by the General Assembly in June 2010. The FY 2011 Enacted revenues reflect those adopted by the Conferees at the May 2010 Revenue Estimating Conference and any statutory changes enacted by the General Assembly in June 2010. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Enacted

	FY 2008 Audited	FY 2009 Audited	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
Personal Income Tax	$ 1,073,616,875	$ 940,513,781	$ 963,200,000	$ 918,500,000	$ 937,900,000
General Business Taxes					
Business Corporations	150,468,827	104,436,811	113,000,000	115,000,000	119,000,000
Public Utilities Gross Earnings	99,436,915	126,664,890	115,000,000	97,000,000	98,000,000
Financial Institutions	1,830,270	5,358,740	3,750,000	2,900,000	1,000,000
Insurance Companies	67,997,274	78,016,930	81,900,000	98,000,000	101,250,000
Bank Deposits	1,710,050	1,802,796	1,730,000	2,200,000	2,200,000
Health Care Provider Assessment	53,356,431	46,030,570	36,126,589	40,000,000	39,800,000
Sales and Use Taxes					
Sales and Use	844,197,089	807,946,985	815,000,000	787,500,000	787,000,000
Motor Vehicle	48,610,020	47,925,805	50,400,000	49,000,000	48,500,000
Motor Fuel	991,473	1,325,034	920,000	1,000,000	1,000,000
Cigarettes	114,674,498	130,503,213	148,000,000	139,600,000	134,000,000
Alcohol	11,140,941	10,811,831	10,900,000	11,500,000	11,700,000
Other Taxes					
Inheritance and Gift	35,333,925	28,096,912	29,399,700	28,000,000	27,600,000
Racing and Athletics	2,812,860	2,450,809	2,100,000	1,500,000	1,300,000
Realty Transfer	10,223,094	6,811,322	7,200,000	6,900,000	6,900,000
Total Taxes	**$ 2,516,400,542**	**$ 2,338,696,429**	**$ 2,378,626,289**	**$ 2,298,600,000**	**$ 2,317,150,000**
Departmental Receipts	$ 356,546,075	$ 318,804,246	$ 335,532,188	$ 332,243,178	$ 345,226,745
Taxes and Departmentals	**$ 2,872,946,617**	**$ 2,657,500,675**	**$ 2,714,158,477**	**$ 2,630,843,178**	**$ 2,662,376,745**
Other Sources					
Gas Tax Transfer	$ 4,513,745	$ 4,327,710	$ -	$ -	$ -
Other Miscellaneous	181,810,134	17,813,994	9,000,000	34,908,000	5,331,000
Lottery	354,321,087	337,515,478	348,700,000	347,700,000	346,138,520
Unclaimed Property	15,387,030	8,044,126	5,000,000	5,600,000	6,000,000
Other Sources	**$ 556,031,996**	**$ 367,701,308**	**$ 362,700,000**	**$ 388,208,000**	**$ 357,469,520**
Total General Revenues	**$ 3,428,978,613**	**$ 3,025,201,983**	**$ 3,076,858,477**	**$ 3,019,051,178**	**$ 3,019,846,265**

FY 2010 Changes to the Adopted Estimates

	November 2009 Rev Est Conf	May 2010 Rev Est Conf	General Assembly Enacted Changes	FY 2010 Final Enacted
Personal Income Tax	$ 919,200,000	$ 918,500,000	$ -	$ 918,500,000
General Business Taxes				
Business Corporations	94,100,000	115,000,000	-	115,000,000
Public Utilities Gross Earnings	120,000,000	97,000,000	-	97,000,000
Financial Institutions	2,000,000	2,900,000	-	2,900,000
Insurance Companies	80,000,000	98,000,000	-	98,000,000
Bank Deposits	1,800,000	2,200,000	-	2,200,000
Health Care Provider Assessment	34,900,000	40,000,000	-	40,000,000
Sales and Use Taxes				
Sales and Use	751,000,000	787,500,000	-	787,500,000
Motor Vehicle	48,600,000	49,000,000	-	49,000,000
Motor Fuel	1,000,000	1,000,000	-	1,000,000
Cigarettes	140,300,000	139,600,000	-	139,600,000
Alcohol	11,000,000	11,500,000	-	11,500,000
Other Taxes				
Inheritance and Gift	26,400,000	28,000,000	-	28,000,000
Racing and Athletics	2,000,000	1,500,000	-	1,500,000
Realty Transfer	6,500,000	6,900,000	-	6,900,000
Total Taxes	**$ 2,238,800,000**	**$ 2,298,600,000**	**$ -**	**$ 2,298,600,000**
Departmental Receipts	$ 342,000,000	$ 342,000,000	$ (9,756,822)	$ 332,243,178
Taxes and Departmentals	**$ 2,580,800,000**	**$ 2,640,600,000**	**$ (9,756,822)**	**$ 2,630,843,178**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	8,500,000	30,770,000	4,138,000	34,908,000
Lottery	351,900,000	347,700,000	-	347,700,000
Unclaimed Property	5,200,000	5,600,000	-	5,600,000
Other Sources	**$ 365,600,000**	**$ 384,070,000**	**$ 4,138,000**	**$ 388,208,000**
Total General Revenues	**$ 2,946,400,000**	**$ 3,024,670,000**	**$ (5,618,822)**	**$ 3,019,051,178**

FY 2011 Changes to the Adopted Estimates

	November 2009 Rev Est Conf	May 2010 Rev Est Conf	General Assembly Enacted Changes	FY 2011 Final Enacted
Personal Income Tax	$ 933,000,000	$ 937,900,000	$ -	$ 937,900,000
General Business Taxes				
Business Corporations	100,000,000	119,000,000	-	119,000,000
Public Utilities Gross Earnings	121,000,000	98,000,000	-	98,000,000
Financial Institutions	1,000,000	1,000,000	-	1,000,000
Insurance Companies	82,400,000	100,000,000	1,250,000	101,250,000
Bank Deposits	1,800,000	2,200,000	-	2,200,000
Health Care Provider Assessment	34,700,000	39,800,000	-	39,800,000
Sales and Use Taxes				
Sales and Use	743,700,000	787,000,000	-	787,000,000
Motor Vehicle	48,100,000	48,500,000	-	48,500,000
Motor Fuel	1,000,000	1,000,000	-	1,000,000
Cigarettes	134,600,000	134,000,000	-	134,000,000
Alcohol	11,100,000	11,700,000	-	11,700,000
Other Taxes				
Inheritance and Gift	26,000,000	27,600,000	-	27,600,000
Racing and Athletics	1,800,000	1,600,000	(300,000)	1,300,000
Realty Transfer	6,500,000	6,900,000	-	6,900,000
Total Taxes	**$ 2,246,700,000**	**$ 2,316,200,000**	**$ 950,000**	**$ 2,317,150,000**
Departmental Receipts	$ 221,000,000	$ 220,800,000	$ 124,426,745	$ 345,226,745
Taxes and Departmentals	**$ 2,467,700,000**	**$ 2,537,000,000**	**$ 125,376,745**	**$ 2,662,376,745**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	4,500,000	4,331,000	1,000,000	5,331,000
Lottery	356,900,000	351,600,000	(5,461,480)	346,138,520
Unclaimed Property	5,300,000	6,000,000	-	6,000,000
Other Sources	**$ 366,700,000**	**$ 361,931,000**	**$ (4,461,480)**	**$ 357,469,520**
Total General Revenues	**$ 2,834,400,000**	**$ 2,898,931,000**	**$ 120,915,265**	**$ 3,019,846,265**

Expenditures from All Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
General Government					
Administration (1)	$617,461,725	$590,250,118	$601,864,659	$611,479,601	$499,299,809
Business Regulation	11,812,170	9,890,284	11,332,045	10,356,273	10,899,430
Labor and Training	499,662,135	802,946,556	930,034,066	1,120,577,856	833,558,439
Revenue	254,603,213	572,495,280	239,805,187	246,127,998	236,330,417
Legislature	33,829,223	33,526,670	37,430,724	35,445,564	39,049,144
Lieutenant Governor	850,412	852,985	973,262	876,616	924,479
Secretary of State	6,819,947	7,031,779	6,495,579	6,126,746	7,503,274
General Treasurer	39,662,095	25,478,600	30,736,632	32,519,559	33,018,358
Board of Elections	1,926,493	2,042,870	1,850,141	1,378,912	3,957,971
Rhode Island Ethics Commission	1,343,029	1,349,727	1,437,730	1,412,657	1,482,659
Governor's Office	4,957,880	5,171,858	5,737,384	5,708,844	6,251,152
Commission for Human Rights	1,340,711	1,373,186	1,424,747	1,272,473	1,371,667
Public Utilities Commission	5,433,284	5,635,606	7,412,531	7,322,031	7,726,656
Rhode Island Commission on Women	105,953	112,321	109,462	69,270	-
Subtotal - General Government	**$1,479,808,270**	**$2,058,157,840**	**$1,876,644,149**	**$2,080,674,400**	**$1,681,373,455**
Human Services					
Office of Health & Human Services	3,848,200	7,075,641	9,390,689	7,977,185	7,167,709
Children, Youth, and Families	226,983,230	249,961,029	247,749,655	240,451,660	237,598,173
Elderly Affairs	34,383,268	32,652,770	25,523,166	27,428,759	26,712,596
Health	126,552,009	122,192,215	132,310,791	142,565,007	116,146,808
Human Services	1,847,633,989	1,834,948,238	1,963,510,139	2,091,297,387	2,285,305,550
Behavioral Health Care, Developmental Disabilities and Hospitals	489,441,696	466,591,487	462,873,731	453,265,681	446,750,327
Governor's Commission on Disabilities	541,108	599,120	726,400	745,181	824,453
Commission On Deaf and Hard of Hearing	288,790	337,416	370,146	348,730	362,824
State Council on Developmental Disabilities	395,288	(326)	-	-	-
Office of the Child Advocate	485,449	512,005	588,148	556,478	589,627
Office of the Mental Health Advocate	419,127	441,061	448,423	376,197	440,950
Subtotal - Human Services	**$2,730,972,154**	**$2,715,310,656**	**$2,843,491,288**	**$2,965,012,265**	**$3,121,899,017**
Education					
Elementary and Secondary	1,092,600,521	1,055,130,894	1,150,007,562	1,138,925,293	1,128,732,869
Higher Education - Board of Governors	789,906,567	190,051,660	886,769,732	892,076,886	937,802,389
RI Council on the Arts	2,934,389	2,602,169	3,274,826	3,646,818	3,054,336
RI Atomic Energy Commission	1,474,561	1,119,073	1,217,115	1,412,172	1,492,350
Higher Education Assistance Authority	25,921,954	34,528,446	28,631,338	25,860,272	25,789,109
Historical Preservation and Heritage Comm.	2,195,180	2,021,139	2,613,504	2,651,856	2,663,971
Public Telecommunications Authority	2,114,570	3,129,610	1,908,358	1,614,724	1,672,717
Subtotal - Education	**$1,917,147,742**	**$1,288,582,991**	**$2,074,422,435**	**$2,066,188,021**	**$2,101,207,741**

Expenditures from All Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
Public Safety					
Attorney General	22,873,248	23,273,491	23,507,213	23,568,471	23,861,219
Corrections	198,729,607	179,135,561	185,355,506	181,730,372	187,181,519
Judicial	94,506,571	93,784,592	95,984,801	93,452,000	97,379,996
Military Staff	23,773,234	28,850,448	27,041,133	31,904,686	26,638,164
Public Safety (2)	73,150,505	78,958,853	91,427,484	104,050,177	86,749,570
Office Of Public Defender	9,302,799	9,272,215	9,809,087	9,518,100	10,020,401
Subtotal - Public Safety	**$422,335,964**	**$413,275,160**	**$433,125,224**	**$444,223,806**	**$431,830,869**
Natural Resources					
Environmental Management	70,373,524	66,566,249	90,973,245	91,090,836	93,120,711
Coastal Resources Management Council	5,474,935	3,607,015	5,541,521	10,169,916	4,383,711
Water Resources Board	1,635,666	1,132,330	1,473,785	1,551,731	1,436,540
Subtotal - Natural Resources	**$77,484,125**	**$71,305,594**	**$97,988,551**	**$102,812,483**	**$98,940,962**
Transportation					
Transportation	305,436,562	405,004,482	489,066,491	409,378,642	428,893,766
Subtotal - Transportation	**$305,436,562**	**$405,004,482**	**$489,066,491**	**$409,378,642**	**$428,893,766**
Total	**$6,933,184,817**	**$6,951,636,723**	**$7,814,738,138**	**$8,068,289,617**	**$7,864,145,810**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

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

Expenditures from General Revenues

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
General Government					
Administration (1)	$520,058,764	$475,081,231	$429,600,820	$418,864,518	$324,063,375
Business Regulation	10,333,679	8,527,975	9,577,234	8,622,375	9,156,047
Labor and Training	6,377,174	6,433,976	6,667,994	6,608,141	7,117,031
Revenue	35,086,502	32,332,042	36,191,064	33,345,389	35,479,085
Legislature	32,377,685	32,018,334	35,874,012	33,942,533	37,474,136
Lieutenant Governor	850,412	852,985	973,262	876,616	924,479
Secretary of State	5,488,114	6,318,528	5,521,241	5,221,421	6,908,707
General Treasurer	2,668,892	2,353,049	2,500,299	2,198,884	2,270,649
Board of Elections	1,315,331	1,547,546	1,600,141	1,158,331	3,957,971
Rhode Island Ethics Commission	1,343,029	1,349,727	1,437,730	1,412,657	1,482,659
Governor's Office	4,957,880	4,627,388	5,106,754	4,416,430	4,752,606
Commission for Human Rights	951,872	918,461	1,016,242	959,254	1,014,978
Public Utilities Commission	475,034	-	-	-	-
Rhode Island Commission on Women	105,953	112,321	109,462	69,270	-
Subtotal - General Government	**$622,390,321**	**$572,473,563**	**$536,176,255**	**$517,695,819**	**$434,601,723**
Human Services					
Office of Health & Human Services	363,333	3,434,394	3,621,896	3,263,120	3,420,163
Children, Youth, and Families	151,491,614	160,349,512	158,822,427	152,284,086	153,046,095
Elderly Affairs	16,969,063	14,056,867	9,920,687	7,822,399	10,100,599
Health	29,985,420	26,238,748	29,554,572	26,959,269	27,624,903
Human Services	815,777,935	661,474,680	662,081,602	663,968,660	715,328,654
Behavioral Health Care, Developmental Disabilities and Hospitals	241,952,595	184,060,035	166,015,780	162,144,955	163,684,244
Governor's Commission on Disabilities	350,480	383,043	366,450	343,142	367,229
Commission On Deaf and Hard of Hearing	289,412	341,316	370,146	348,730	362,824
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	445,443	501,518	547,048	510,584	543,822
Office of the Mental Health Advocate	419,127	441,061	448,423	376,197	440,950
Subtotal - Human Services	**$1,258,044,422**	**$1,051,281,174**	**$1,031,749,031**	**$1,018,021,142**	**$1,074,919,483**

Expenditures from General Revenues

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
Education					
Elementary and Secondary	908,826,348	826,168,088	857,726,770	807,041,835	856,068,541
Higher Education - Board of Governors	189,982,773	170,880,180	173,306,844	161,208,876	163,606,843
RI Council on the Arts	2,111,963	1,591,482	1,983,986	1,916,542	1,668,346
RI Atomic Energy Commission	834,101	850,234	775,346	786,438	875,781
Higher Education Assistance Authority	10,219,792	7,283,678	7,305,741	6,611,633	6,723,347
Historical Preservation and Heritage Comm.	1,494,562	1,241,496	1,285,100	1,256,873	1,348,717
Public Telecommunications Authority	1,316,196	1,206,333	1,142,702	1,000,695	1,035,967
Subtotal - Education	**$1,114,785,735**	**$1,009,221,491**	**$1,043,526,489**	**$979,822,892**	**$1,031,327,542**
Public Safety					
Attorney General	20,550,412	20,811,434	21,099,743	19,635,128	21,209,730
Corrections	193,138,298	154,269,705	177,390,562	171,119,682	178,329,401
Judicial	82,799,851	81,658,621	83,907,229	78,865,419	84,575,255
Military Staff	2,320,832	3,489,128	3,279,979	2,867,263	2,782,435
Public Safety (2)	62,946,519	63,138,452	54,745,909	54,156,915	67,024,490
Office Of Public Defender	9,030,938	8,986,912	9,583,189	9,136,777	9,590,261
Subtotal - Public Safety	**$370,786,850**	**$332,354,252**	**$350,006,611**	**$335,781,184**	**$363,511,572**
Natural Resources					
Environmental Management	36,032,812	32,853,889	35,484,369	32,429,116	34,403,329
Coastal Resources Management Council	1,985,139	2,002,176	2,027,574	1,938,735	2,038,515
Water Resources Board	1,226,089	998,006	1,370,785	1,097,753	1,316,540
Subtotal - Natural Resources	**$39,244,040**	**$35,854,071**	**$38,882,728**	**$35,465,604**	**$37,758,384**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$3,405,251,368**	**$3,001,184,551**	**$3,000,341,114**	**$2,886,786,641**	**$2,942,118,704**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

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

Expenditures from Federal Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
General Government					
Administration (1)	$39,828,801	$48,933,461	$80,173,897	$92,734,715	$79,572,545
Business Regulation	114,130	87,315	-	-	-
Labor and Training	28,883,497	69,695,640	214,366,612	356,968,034	181,957,663
Revenue	1,470,903	1,551,480	2,604,929	2,419,140	2,289,770
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	911,443	285,132	500,000	408,400	100,000
General Treasurer	799,601	783,113	1,293,540	1,276,605	1,108,180
Board of Elections	611,162	495,324	250,000	220,581	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	544,470	630,630	35,000	-
Commission for Human Rights	388,839	454,725	408,505	313,219	356,689
Public Utilities Commission	70,662	67,758	103,600	203,864	296,330
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$73,079,038**	**$122,898,418**	**$300,331,713**	**$454,579,558**	**$265,681,177**
Human Services					
Office of Health & Human Services	3,168,914	2,989,140	4,484,003	3,853,419	2,873,533
Children, Youth, and Families	72,217,463	86,805,083	85,504,945	84,988,948	77,855,163
Elderly Affairs	11,980,485	13,297,603	15,210,364	18,512,017	15,936,066
Health	80,827,914	75,887,711	77,831,370	89,689,148	63,259,111
Human Services	1,024,128,776	1,167,517,155	1,288,587,124	1,414,399,126	1,556,245,695
Behavioral Health Care, Developmental Disabilities and Hospitals	241,728,740	273,867,202	280,058,238	275,389,826	259,918,758
Governor's Commission on Disabilities	77,450	56,245	174,949	198,329	193,598
Commission On Deaf and Hard of Hearing	(622)	(3,900)	-	-	-
State Council on Developmental Disabilities	395,288	(326)	-	-	-
Office of the Child Advocate	40,006	10,487	41,100	45,894	45,805
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,434,564,414**	**$1,620,426,400**	**$1,751,892,093**	**$1,887,076,707**	**$1,976,327,729**

Expenditures from Federal Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
Education					
Elementary and Secondary	175,708,363	212,971,419	278,346,091	311,039,586	239,980,896
Higher Education - Board of Governors	4,924,539	3,735,662	20,338,416	19,841,010	15,004,667
RI Council on the Arts	612,251	698,153	855,840	1,195,276	950,990
RI Atomic Energy Commission	352,771	51,548	107,000	322,051	300,159
Higher Education Assistance Authority	8,610,378	13,123,389	14,575,320	12,185,920	12,044,337
Historical Preservation and Heritage Comm.	509,240	509,473	819,367	913,734	835,804
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$190,717,542**	**$231,089,644**	**$315,042,034**	**$345,497,577**	**$269,116,853**
Public Safety					
Attorney General	1,298,123	1,397,378	1,274,540	1,986,361	1,248,830
Corrections	2,688,836	22,288,289	2,196,668	3,354,329	2,794,860
Judicial	1,872,594	1,625,278	1,445,452	3,585,831	2,326,527
Military Staff	19,515,282	24,421,516	21,941,615	26,309,289	22,150,754
Public Safety (2)	5,957,636	7,925,749	17,227,246	23,578,895	7,131,554
Office Of Public Defender	271,861	285,303	225,898	381,323	430,140
Subtotal - Public Safety	**$31,604,332**	**$57,943,513**	**$44,311,419**	**$59,196,028**	**$36,082,665**
Natural Resources					
Environmental Management	18,024,013	19,660,143	33,680,872	35,283,320	35,386,175
Coastal Resources Management Council	1,779,206	1,384,339	1,608,438	6,325,672	2,095,196
Water Resources Board	-	(1,034)	-	-	-
Subtotal - Natural Resources	**$19,803,219**	**$21,043,448**	**$35,289,310**	**$41,608,992**	**$37,481,371**
Transportation					
Transportation	189,355,117	217,263,313	381,348,383	308,302,952	318,808,127
Subtotal - Transportation	**$189,355,117**	**$217,263,313**	**$381,348,383**	**$308,302,952**	**$318,808,127**
Total	**$1,939,123,662**	**$2,270,664,736**	**$2,828,214,952**	**$3,096,261,814**	**$2,903,497,922**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

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

Expenditures from Restricted Receipts

	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011
	Actual	Actual	Original Enacted	Final Enacted	Enacted
General Government					
Administration (1)	$9,973,069	$9,476,352	$18,938,514	$27,282,120	$17,140,339
Business Regulation	1,364,361	1,274,994	1,754,811	1,733,898	1,743,383
Labor and Training	20,098,434	18,912,732	25,314,950	22,018,670	17,529,145
Revenue	789,994	4,479,106	845,292	5,089,952	824,191
Legislature	1,451,538	1,508,336	1,556,712	1,503,031	1,575,008
Lieutenant Governor	-	-	-	-	-
Secretary of State	420,390	428,119	474,338	496,925	494,567
General Treasurer	35,987,392	22,183,336	26,740,503	28,829,896	29,420,614
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	1,257,414	1,498,546
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	4,887,588	5,567,848	7,308,931	7,118,167	7,430,326
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$74,972,766**	**$63,830,823**	**$82,934,051**	**$95,330,073**	**$77,656,119**
Human Services					
Office of Health & Human Services	$315,953	$652,107	$1,284,790	$860,646	$874,013
Children, Youth, and Families	2,731,750	2,232,511	2,203,059	2,512,807	2,306,915
Elderly Affairs	956,578	850,000	392,115	1,094,343	675,931
Health	15,692,703	19,955,653	24,693,437	25,753,580	25,082,953
Human Services	7,027,278	5,923,903	8,316,413	8,519,601	9,446,201
Behavioral Health Care, Developmental Disabilities and Hospitals	2,587,327	4,695,837	5,203,044	8,690,705	10,688,634
Governor's Commission on Disabilities	13,178	8,432	10,001	13,559	13,626
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$29,324,767**	**$34,318,443**	**$42,102,859**	**$47,445,241**	**$49,088,273**

Expenditures from Restricted Receipts

	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011
	Actual	**Actual**	**Original Enacted**	**Final Enacted**	**Enacted**
Education					
Elementary and Secondary	6,507,062	6,511,895	7,501,077	17,030,683	23,930,750
Higher Education - Board of Governors	715,937	-	667,543	754,577	930,000
RI Council on the Arts	-	83,440	-	100,000	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	191,378	270,170	509,037	481,249	479,450
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$7,414,377**	**$6,865,505**	**$8,677,657**	**$18,366,509**	**$25,340,200**
Public Safety					
Attorney General	867,559	843,800	932,930	1,340,135	1,202,659
Corrections	(61)	-	-	122,837	87,134
Judicial	8,395,390	8,796,528	9,807,120	9,614,284	9,628,214
Military Staff	158,275	99,797	337,449	538,032	842,475
Public Safety (2)	1,103,585	243,806	609,000	1,558,906	803,106
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$10,524,748**	**$9,983,931**	**$11,686,499**	**$13,174,194**	**$12,563,588**
Natural Resources					
Environmental Management	13,483,302	11,413,385	15,246,049	13,950,042	14,136,916
Coastal Resources Management Council	120,000	220,500	250,000	250,000	250,000
Water Resources Board	327,378	109,816	-	-	-
Subtotal - Natural Resources	**$13,930,680**	**$11,743,701**	**$15,496,049**	**$14,200,042**	**$14,386,916**
Transportation					
Transportation	(160,669)	370,418	1,500,000	1,000,000	1,000,000
Subtotal - Transportation	**($160,669)**	**$370,418**	**$1,500,000**	**$1,000,000**	**$1,000,000**
Total	**$136,006,669**	**$127,112,821**	**$162,397,115**	**$189,516,059**	**$180,035,096**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

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

Expenditures from Other Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
General Government					
Administration (1)	$47,601,091	$56,759,074	$73,151,428	$72,598,248	$78,523,550
Business Regulation	-	-	-	-	-
Labor and Training	444,303,030	707,904,208	683,684,510	734,983,011	626,954,600
Revenue	217,255,814	534,132,652	200,163,902	205,273,517	197,737,371
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	206,210	159,102	202,290	214,174	218,915
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$709,366,145**	**$1,298,955,036**	**$957,202,130**	**$1,013,068,950**	**$903,434,436**
Human Services					
Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	542,403	573,923	1,219,224	665,819	4,390,000
Elderly Affairs	4,477,142	4,448,300	-	-	-
Health	45,972	110,103	231,412	163,010	179,841
Human Services	700,000	32,500	4,525,000	4,410,000	4,285,000
Behavioral Health Care, Developmental Disabilities and Hospitals	3,173,034	3,968,413	11,596,669	7,040,195	12,458,691
Governor's Commission on Disabilities	100,000	151,400	175,000	190,151	250,000
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$9,038,551**	**$9,284,639**	**$17,747,305**	**$12,469,175**	**$21,563,532**

Expenditures from Other Funds

	FY 2008 Actual	FY 2009 Actual	FY 2010 Original Enacted	FY 2010 Final Enacted	FY 2011 Enacted
Education					
Elementary and Secondary	1,558,748	9,479,492	6,433,624	3,813,189	8,752,682
Higher Education - Board of Governors	594,283,318	15,435,818	692,456,929	710,272,423	758,260,879
RI Council on the Arts	210,175	229,094	435,000	435,000	435,000
RI Atomic Energy Commission	287,689	217,291	334,769	303,683	316,410
Higher Education Assistance Authority	7,091,784	14,121,379	6,750,277	7,062,719	7,021,425
Historical Preservation and Heritage Comm.	-	-	-	-	-
Public Telecommunications Authority	798,374	1,923,277	765,656	614,029	636,750
Subtotal - Education	**$604,230,088**	**$41,406,351**	**$707,176,255**	**$722,501,043**	**$775,423,146**
Public Safety					
Attorney General	157,154	220,879	200,000	606,847	200,000
Corrections	2,902,534	2,577,567	5,768,276	7,133,524	5,970,124
Judicial	1,438,736	1,704,165	825,000	1,386,466	850,000
Military Staff	1,778,845	840,007	1,482,090	2,190,102	862,500
Public Safety (2)	3,142,765	7,650,846	18,845,329	24,755,461	11,790,420
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$9,420,034**	**$12,993,464**	**$27,120,695**	**$36,072,400**	**$19,673,044**
Natural Resources					
Environmental Management	2,833,397	2,638,832	6,561,955	9,428,358	9,194,291
Coastal Resources Management Council	1,590,590	-	1,655,509	1,655,509	-
Water Resources Board	82,199	25,542	103,000	453,978	120,000
Subtotal - Natural Resources	**$4,506,186**	**$2,664,374**	**$8,320,464**	**$11,537,845**	**$9,314,291**
Transportation					
Transportation	116,242,114	187,370,751	106,218,108	100,075,690	109,085,639
Subtotal - Transportation	**$116,242,114**	**$187,370,751**	**$106,218,108**	**$100,075,690**	**$109,085,639**
Total	**$1,452,803,118**	**$1,552,674,615**	**$1,823,784,957**	**$1,895,725,103**	**$1,838,494,088**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

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

Free Surplus

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

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

The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish five year forecasts of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that outyear expenditures will exceed revenues, at times by a substantial amount as reflected in the State Budget Office's most recent projections for FY 2012 through FY 2015, which forecasts deficits of $362.2 million for FY 2012, $416.2 million for FY 2013, $457.2 million for FY 2014 and $535.7 million for FY 2015. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

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

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

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

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

The nation is feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 73,300 Rhode Islanders unemployed. The jobless rate peaked at 12.7 percent in December 2009 and the State currently ranks fourth in the nation with a 12.3 percent rate of unemployment as of May 2010, compared to 9.7 percent nationally. The State has depleted the resources it set aside to pay unemployment benefits and is now borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment has translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Personal income taxes are estimated to be $918.5 million in FY 2010 and $937.9 million in FY 2011. The FY 2011 level of personal income tax revenues is $135.7 million less than the peak level of receipts collected in FY 2007 and is only slightly more than what was collected in FY 2004. Uncertainty about the economic future and the contraction of the State's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. Sales tax receipts are estimated to be $787.5 million in FY 2010 and $787.0 million in FY 2011. This is $86.2 million less than the peak level of receipts collected in FY 2007. The business corporations tax, which peaked in FY 2006 at $165.1 million are estimated at $115.0 million in FY 2010 and $119.0 million in FY 2011. Rhode Island's estimated general revenue receipts in FY 2010 and FY 2011 are estimated to be $3.019 billion and $3.021 billion, respectively.

At the time of submission of the Governor's proposed budget for FY 2011, the FY 2011 budget shortfall was projected to be $427.4 million, due to approximately $114.1 million in revenue underperformance, $285.7 million in additional spending pressure, $22.0 million from the deferral of repayment to the RI Capital Plan Fund from FY 2010 and $5.0 million due to the acceleration of ARRA education stabilization funds from FY 2011 to FY 2010. A major portion of the increased in projected spending was due to the anticipated end to enhanced FMAP for Medicaid expenditures on December 31, 2010. This translates into additional expenditures of approximately $107.7 million. The Governor's recommended budget for FY 2011 resolved this deficit through a combination of expenditure modifications, increased revenues and one-time revenue or expenditure changes. Included in these recommendations was the anticipated extension of the enhanced FMAP to June 30, 2011. The budget enacted by the General Assembly in June 2010 also included funding from this extension despite the fact that no action had been taken by Congress as of that time; however, the budget does include a provision for the Governor to impose across the board reductions of equal percentage in FY 2011 if the extension is not approved by December 31, 2010 to make up for the lost federal revenues. As of June 30, 2010, Congress had not taken action to authorize the FMAP extension. In addition to the FMAP funding, the FY 2011 budget as enacted includes savings from pension reform totaling approximately $16.0 million in general revenues, reductions in state education aid of $21.1 million, debt service savings of $37.4 million, reductions in the Motor Vehicle Excise Tax Phase-out program of $125.0 million and wage concessions from employees totaling $18.3 million in general revenues. Increase revenues of $57.4

million result from increased estimates as compared to the November 2009 Revenue Estimating Conference, changes in various fees and several one-time revenues.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $789.0 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package at over $1 billion (not including unemployment benefits, supplemental nutrition assistance programs, Pell grants, or child support enforcement). This includes approximately $546.0 million over 36 months for Rhode Island's Medicaid programs (assuming a six-month extension of the enhanced Medicaid match rate), approximately $137.0 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91.0 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165.0 million of fiscal stabilization funds to be used primarily as education aid. The FY 2010 Enacted Budget included $638.8 million of federal ARRA funds and the Revised FY 2010 Budget increased this amount by $194.0 million to include $832.8 million of ARRA funds. The General Assembly included in the FY 2010 Enacted Budget $198.6 million in additional federal Medicaid matching funds and enhanced Title IVE funds, thereby reducing general revenue expenditures by the same amount based on the federal act that raised the federal Medicaid match percentage by 11.3 points retroactive to October 1, 2008.

The Revised FY 2010 Budget also maximized use of State fiscal stabilization funds for State budget relief by utilizing $65.7 million of federal funds to relieve state general revenue support to local governments, which includes $55.7 million for education and $10.0 million for public safety. The FY 2011 Budget utilizes the final $18.6 million in fiscal stabilization funds available for education, and includes $215.3 million from enhanced FMAP (assuming a six-month extension) and $336.1 million of other federal ARRA funds.

As described above, the State has used a number of one-time measures, such as the use of one-time federal funds and reserves, which will not be available to address future budget needs. Furthermore, in light of the current conditions, significant budget deficits are expected for the years following FY 2011 and additional significant adjustments to both revenues and expenditures will likely be necessary for the adoption of balanced budgets for the fiscal years following FY 2011.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2008 through 2011. FY 2008 and FY 2009 data is derived from the State's Comprehensive Annual Financial Reports prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2010 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2009. The FY 2010 Final Revised Budget reflects the FY 2010 supplemental budget enacted by the General Assembly in June 2010. The FY 2011 Enacted Budget reflects the revenues adopted by the May 2010 Revenue Estimating Conference, and changes to revenues and expenditures enacted by the General Assembly in the FY 2011 Budget.

FY 2011 General Revenue Budget Surplus

	FY2008 Actual[1]	FY2009 Audited[2]	FY2010 Enacted Budget[3]	FY2010 Final Revised[4]	FY2011 Enacted[5]
Surplus					
Opening Surplus	$0	($42,950,480)	$1,142,383	($62,286,104)	$14,215
Reappropriated Surplus	3,640,364	1,738,518		998,144	
Subtotal	**$3,640,364**	**($41,211,962)**	**$1,142,383**	**($61,287,960)**	**$14,215**
General Taxes	2,516,400,542	2,338,696,429	2,378,626,289	2,378,626,289	2,246,700,000
Revenue estimators' revision	-			(80,026,289)	69,500,000
Changes to the Adopted Estimates	-			-	950,000
Subtotal	**$2,516,400,542**	**$2,338,696,429**	**$2,378,626,289**	**$2,298,600,000**	**$2,317,150,000**
Departmental Revenues	356,546,075	318,804,246	335,532,188	335,532,188	221,000,000
Revenue estimators' revision	-			6,467,812	(200,000)
Changes to the Adopted Estimates	-			(9,756,822)	124,426,745
Subtotal	**$356,546,075**	**$318,804,246**	**$335,532,188**	**$332,243,178**	**$345,226,745**
Other Sources					
Gas Tax Transfers	4,513,745	4,327,710	-	-	-
Revenue estimators' revision	-				
Changes to the Adopted Estimates			-	-	
Other Miscellaneous	181,810,134	17,813,994	9,000,000	9,000,000	4,500,000
Rev Estimators' revision-Miscellaneous	-			21,770,000	(169,000)
Changes to the Adopted Estimates	-			4,138,000	1,000,000
Lottery	354,321,087	337,515,478	348,700,000	348,700,000	356,900,000
Revenue Estimators' revision-Lottery	-			(1,000,000)	(5,300,000)
Changes to the Adopted Estimates					(5,461,480)
Unclaimed Property	15,387,030	8,044,126	5,000,000	5,000,000	5,300,000
Revenue Est revision-Unclaimed Property	-			600,000	700,000
Changes to the Adopted Estimates					
Subtotal	**$556,031,996**	**$367,701,308**	**$362,700,000**	**$388,208,000**	**$357,469,520**
Total Revenues	**$3,428,978,613**	**$3,025,201,983**	**$3,076,858,477**	**$3,019,051,178**	**$3,019,846,265**
Transfer to Budget Reserve	**(68,579,573)**	**(66,093,533)**	**(73,872,021)**	**(70,962,362)**	**(78,516,372)**
Total Available	**$3,364,039,404**	**$2,917,896,488**	**$3,004,128,839**	**$2,886,800,856**	**$2,941,344,108**
Actual/Enacted Expenditures	**$3,405,251,366**	**$3,001,184,448**	**$3,000,341,114**	**$2,885,788,497**	**$2,942,118,704**
Reappropriations				998,144	
Changes in Pass Through funds					
Other Expenditure Changes	-				
Total Expenditures	**$3,405,251,366**	**$3,001,184,448**	**$3,000,341,114**	**$2,886,786,641**	**$2,942,118,704**
Free Surplus	**($42,950,480)**	**($62,286,104)**	**$3,787,725**	**$14,215**	**$404**
Budget Balance Plan for FY 2011[6]					**$775,000**
Transfer from the Budget Reserve Fund		**$22,000,000**			
Reappropriations	(1,738,518)	**(998,144)**	-	-	-
Total Ending Balances	**($41,211,962)**	**($83,287,960)**	**$3,787,725**	**$14,215**	**($774,596)**
Budget Reserve and Cash Stabilization Account[7]	**$102,869,358**	**$80,144,551**	**$116,964,033**	**$112,357,073**	**$126,866,702**

[1]Reflects the audited annual consolidated financial report for FY 2008, reflecting a deficit of $42,950,480. The carryover deficit from 2008 was addressed in the FY 2009 supplemental through additional expenditure reductions and revenues, resulting in a balanced budget at the time the supplemental budget was enacted.

[2]Derived from the State Controller's audited closing report for FY 2009, reflecting a deficit of $62,286,104, after transfer of $22.0 million appropriated from the Budget Reserve Account. The carryover deficit from 2009 is addressed in the FY 2010 final supplemental budget. However, the final FY 2010 supplemental budget defers the repayment of the $22.0 million appropriated from the Budget Reserve Account until FY 2011.

[3]Reflects the FY 2010 budget enacted by the General Assembly in June 2009, reflecting the revenue estimates adopted at the May 2009 Revenue Estimating Conference, and further modified by legislative changes included in the enacted budget.

[4] Reflects the FY 2010 final budget enacted by the General Assembly in June 2010, reflecting the revenue estimates adopted at the May 2010 Revenue Estimating Conference and further modified by legislative changes in the enacted budget. The FY 2009 carryover deficit is addressed in the FY 2010 final budget through additional expenditure reductions and revenues, resulting in a balanced budget for FY 2010.

[5] Reflects the final FY 2011 budget enacted by the General Assembly in June 2010, reflecting the revenue estimates adopted at the May 2010 Revenue Estimating Conference and further modified by legislative changes in the enacted budget.

[6] 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 additional resources (i.e. taxes, fines, fees, licenses, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization 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.

[7] The Budget Reserve and Cash Stabilization funding is based upon a statutory formula which is contingent upon revenues and is capped at an increasing percentage of total resources.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years the State has sought to enhance the timeliness of completion of the Comprehensive Annual Financial Report. The report for the fiscal year ending June 30, 2005 was issued in February 2006. The report for fiscal year ending June 30, 2006 was issued in January 2007. The FY2007 report was issued in early April 2008, after passage of legislation by the General Assembly to appropriate $19.4 million from the Budget Reserve and Cash Stabilization Account for FY 2007. The report for fiscal year ending June 30, 2008 was issued in early April 2009, after passage of the FY 2009 Supplemental Budget which did not include the appropriation from the Budget Reserve Fund as requested by the Governor to resolve the FY 2008 deficit. The report for fiscal year ending June 30, 2009 was issued on April 6, 2010.

As part of the auditing process for the fiscal year ending June 30, 2009, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the State's Auditor General's report entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General's website at www.oag.ri.gov/reports.html. The State has dedicated substantial resources to resolving these issues and continues to attempt to address deficiencies as they are raised.

STATE INDEBTEDNESS

Authorization and Debt Limits

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

Public Finance Management Board

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

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

Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of $4.0 million in FY 1999, and $865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net $5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million. As of December 31, 2009, the balance of Sinking Fund Commission funds was $0.

Tax Anticipation Notes

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

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

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

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

* $350,000,000 in Tax Anticipation Notes due June 30, 2010 were issued on August 18, 2009.

**Estimated

Net Tax Supported State Debt

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

As of June 1, 2010, authorized but unissued direct debt totaled $84,591,822 and there was no authorized but unissued guaranteed debt.

Tax Supported Debt and Debt Ratios

	Debt Outstanding June 30, 2008	Debt Outstanding June 30, 2009	Debt Outstanding June 30, 2010(3)
Direct Debt:			
Proposed General Obligation Bond Issuance	-	-	-
Variable Rate Bonds[1]	14,165	-	
Various purpose bonds	982,923	1,036,189	1,118,030
Subtotal	997,088	1,036,189	1,118,030
Guaranteed Debt:			
Turnpike and Bridge Authority bonds	-	-	-
Blackstone Valley District Commission bonds	-	-	-
Narragansett Bay District Commission bonds	-	-	-
Subtotal	-	-	-
Other Debt Subject to Annual Appropriation:			
Rhode Island Depositors Economic Protection Corp.	-	-	-
RI Refunding Bond Authority-Public Buildings Lease Rental Bonds	24,235	6,040	-
Rhode Island Refunding Bond Authority-Direct	-	-	-
Rhode Island Refunding Bond Auth.-Narr Bay	-	-	-
Convention Center Authority	270,960	263,800	256,270
Economic Development Corporation-Transportation(motor fuel)	72,560	81,125	77,645
Certificates of Participation -Equipment/Vehicle Leases	14,395	9,400	5,425
Certificates of Participation - Intake Center	5,535	2,775	-
Certificates of Participation - Attorney General	2,230	2,030	1,745
Certificates of Participation- DLT Howard Complex	13,375	12,630	11,200
Certificates of Participation-Shepard's Building(originally EDC)	20,980	19,155	17,245
Certificates of Participation-Howard Steam Plant	22,160	21,035	19,650
Certificates of Participation-Kent County Courthouse	52,075	49,690	47,240
Certificates of Participation-Traffic Tribunal Court Complex	19,940	19,090	18,215
Certificates of Participation-Training School	48,370	46,470	44,500
Certificates of Participation-Information Technology	21,000	30,500	25,935
Certificates of Participation-School for the Deaf	-	30,425	29,500
Loan Agreement-Historic Structures Tax Credit Fund	-	150,000	135,195
Projected Loan Agreement-Historic Structures Tax Credit Fund	-	-	-
Certificates of Participation-DOA Energy Conservation	6,000	5,830	5,635
Projected Certificates of Participation-URI/CCRI Energy Conservation		-	-
Projected Energy Conservation - Pastore/Zambarano	-	-	-
Energy Conservation - University of RI	6,735	18,090	17,385
Divison of Motor Vehicle System Loan	-	-	11,000
RIHMFC Neighborhood Opportunities Housing Program	18,152	13,179	8,450
Economic Development Corporation-Masonic Temple	9,775	5,030	-
Economic Development Corporation-URI Power Plant	11,494	10,759	9,995
Economic Development Corporation- McCoy Stadium	3,265	2,220	1,130
Economic Development Corporation- Alpha Beta/Smithfield Col/Dow	-	-	-
Economic Development Corporation- Central Falls Detention Center	-	-	-
Subtotal	643,236	799,273	743,360
Performance Based Agreements(2)			
Economic Development Corporation- Fidelity Building	19,592	18,708	17,749
Economic Development Corporation- Fidelity Building II	9,766	9,514	9,244
Economic Development Corporation- Fleet Bank	9,415	9,180	8,925
Subtotal	38,772	37,402	35,919
Gross Debt	1,679,096	1,872,864	1,897,309
Less: Adjustments for Agency Payments	(27,766)	(26,617)	(25,406)
Net Tax Supported Debt	**$1,651,331**	**$1,846,247**	**$1,871,902**
Debt Ratios			
Personal Income	**$42,618,063**	**$42,988,324**	**$43,310,518**
Debt as a percent of Personal Income	**3.87%**	**4.29%**	**4.32%**

(1) Reflects the impact of the redemption on January 2, 2009 of the State's outstanding Mult-Modal General Obligation Bonds Consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,365,000 refunded with fixed rate debt.
(2) Excludes contract for Providence Place Mall described under "Major Sources of State Revenues - Sales and Use Tax".
(3) Projected debt outstanding as of June 30, 2010 includes the impact of the State's $78,960,000 General Obligation Bonds Consolidated Capital Development Loan of 2010, Refunding Series A issued on April 28, 2010 and $40,865,000 Consolidated Development Loan of 2010, Series B (Tax Exempt), $80,000,000 Capital Development Loan of 2010, Series C (Federally Taxable - Issuer Subsidy - Recovery Zone Economic Development Bonds), and $23,800,000 Capital Development Loan of 2010, Series D (Federally Taxable) issued on May 27, 2010.

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, 2009, the State had $1.036 billion of general obligation tax supported bonds outstanding. On April 28, 2010, however, the State issued $78,960,000 General Obligation Bonds Consolidated Capital Development Loan of 2010, Refunding Series A. Also, on May 27, 2010, the State issued $40,865,000 Consolidated Development Loan of 2010, Series B (Tax Exempt), $80,000,000 Capital Development Loan of 2010, Series C (Federally Taxable – Issuer Subsidy – Recovery Zone Economic Development Bonds) and $23,800,000 Capital Development Loan of 2010, Series D (Federally Taxable). The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2010 through FY 2028.

Debt Service Schedule for General Obligation
Debt Issued for FY 2010-2028*

Fiscal Year	Principal	Interest	Total Debt Service
2010	63,494,000	48,887,331	112,381,331
2011	68,630,000	51,023,242	119,653,242
2012	73,230,000	49,129,551	122,359,551
2013	96,150,000	45,188,490	141,338,490
2014	76,000,000	41,146,642	117,146,642
2015	93,230,000	37,478,203	120,708,203
2016	75,440,000	33,733,226	109,173,226
2017	79,670,000	29,986,276	109,656,276
2018	68,350,000	26,435,467	94,785,467
2019	64,500,000	23,238,657	87,738,657
2020	58,705,000	20,443,559	79,148,559
2021	61,995,000	17,787,721	79,782,721
2022	53,295,000	15,124,134	68,419,134
2023	54,400,000	12,594,868	66,994,868
2024	45,140,000	10,124,720	55,264,720
2025	39,475,000	7,841,786	47,316,786
2026	41,285,000	5,854,094	47,139,094
2027	27,555,000	4,070,407	31,625,407
2028	27,210,000	2,623,276	29,833,276
2029	11,670,000	1,386,524	13,056,524
2030	12,100,000	705,632	12,805,632
Total	$1,181,524,000	$484,803,804	$1,666,327,804

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of July 1, 2010. Excludes guaranteed and contingent debt.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of March 1, 2010 which has been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of June 1, 2010*
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
RI Water Pollution Revolving Loan Fund and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, Ch. 434-P.L. of 1990	4,000,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	5,020,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	21,885,000
Higher Education	Ch. 246-P.L. of 2006	31,500,000
Transportation	Ch. 246-P.L. of 2006	4,507,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	2,500,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Transportation	Ch.100-P.L.of 2008	7,215,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	2,500,000
Total Direct Debt		**$84,591,822**

Source: State Budget Office

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

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

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of June 1, 2010, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described

above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $66,275,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

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

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

In December 1995, the State entered into a lease agreement with a financial institution which issued $4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2009, $2,030,000 of these certificates were outstanding.

The State has also entered into a lease agreement with a financial institution that issued $33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2009, $2,775,000 was outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2009, $12,630,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 in certificates of participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2009, $19,155,000 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, 2009, $2,220,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 in certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2009, $9,400,000 in certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2009, there was $21,035,000 in certificates outstanding.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of $13,060,000 of debt to provide funds for the relocation of the Traveler's Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional $2,250,000 for the Traveler's Aid project through the loan agreement. In 2006, the State financed $5.0 million for related affordable housing projects. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects. As of June 30, 2009, there was $13,179,000 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2009, $81,125,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2009, there was $49,690,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2009, there was $19,090,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. As of June 30, 2009, there was $46,470,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. As of June 30, 2009, there was $30,500,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2009, there was $23,920,000 outstanding.

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to $14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer. As of June 30, 2009, there was $5,030,000 outstanding.

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

In June 2009, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of Economic Development Corporation Revenue Bonds in the amount of up to $356,200,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2009, there was $150,000,000 of such Revenue Bonds outstanding.

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

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of June 15, 2010, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$85,270,000
Economic Development Corporation – Historic Structures Tax Credit Fund	206,200,000
Economic Development Corporation – Fund to Grow Rhode Island Companies	125,000,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$416,470,000

The State plans to issue approximately $40.0 million of Certificates of Participation in FY 2011 for Energy Conservation projects. In addition, it is expected that the Economic Development Corporation will issue approximately an additional $75.0 million of bonds to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved for quasi-public agencies and the Board of Governors for Higher Education, which will be funded from non-general revenue sources.

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

Performance-based obligations of the Economic Development Corporation. In May 1996 the Economic Development Corporation issued $25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2009, $28.222

million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.9 million in 2010, and are expected to reach $2.5 million for Phase I and $522,000 for Phase II annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2009, $9.180 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.

Borrowing for the Employment Security Fund

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

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

The balance in the Rhode Island Employment Security Fund was ($213.9) million as of April 30, 2010. This was a decrease of $156.7 million from April 2009. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government $70.3 in FY 2009 and $155.2 million in FY 2010 as of June 23, 2010. The Department projects that it will need to continue to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2010 and FY 2011. The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 million repayment of the outstanding loan balance.

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

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Borrowings from Federal Unemployment Account: Amount Repaid (Millions)
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-120.9	127.5	-0-
2010 (as of April 30)	-213.9	98.0	-0-

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State has borrowed an additional $98.0 million in 2010 through the end of May. It is expected that borrowing will continue in FY 2011, and could reach $232.1 million by the end of December 2010. Total borrowing is expected to peak at $308.1 million at the end of April 2011.

Under ARRA, the loans from the federal account do not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by October 1st of each year. Failure to pay this interest by the due date would result in a loss of state employer FUTA tax credits and the loss of the State's UI Administrative grant. The interest due on federal loans cannot be paid out of the State's UI Trust fund or by UI Grant funds. As a result, the General Assembly passed legislation that deleted a 0.3% UI surtax scheduled to take effect on January 1, 2011 and added 0.3% to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans. If the State is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a federal unemployment tax (FUTA) of 6.2% to the federal government less a credit of 5.4% when state UI law is in conformity with federal law. The net federal tax is, therefore, 0.8%. However, after two years of outstanding

loans, federal law requires cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit would be applied against the State's federal loan balance.

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

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24 of the General Laws, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance of the Series 1997 Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of the Authority's revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $23,625,000 at June 30, 2009.

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

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

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

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to $3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State. However, as of February 28, 2010, the Commission has outstanding long-term debt (revenue bonds) of $155,128,722 and outstanding long-term loans payable to the Rhode Island Clean Water Finance Agency of $255,471,628.

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

As of June 30, 2009, the Authority had outstanding mortgage agreements and other commitments for $13,841,455 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, 2009, the Fund had a balance of $3,630,714 of which $3,110,367 was liquid. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

Rhode Island Refunding Bond Authority. The Authority was created in 1987 under Chapter 8.1, title 35 of the General Laws, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of providing a legal means to advance refund two series of general obligation bonds of the State. 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, 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 were 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. The 2003 Series A bonds matured and were no longer outstanding as of October 1, 2008. Total net debt outstanding on the remaining 1998 Series A issue as of June 30, 2009 was $6,040,000. As of February 1, 2010, all bonds of the Authority were paid in full.

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

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

As of June 30, 2009, the Authority had $275,810,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 1993 Series B - $39,650,000
- 2003 Series A - $41,315,000
- 2005 Series A - $33,980,000
- 2006 Series A - $89,645,000
- 2009 Series A - $70,735,000
- 2009 Series B - $ 485,000

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

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

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A, in the aggregate principal amount of $19,945,000. The bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. The outstanding balance at June 30, 2009 totals $14,845,000.

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

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

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

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	7,500,000
2007	3,300,000
2008	5,000,000
2009	7,500,000
	$66,715,000

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 $33,299,000 into the trust fund and has disbursed approximately $5,484,000 for remediation expenses and trustee management fees through June 30, 2009. Additionally, trust fund earnings, net of changes in market value have totaled approximately $14,624,000 as of June 30, 2009.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and post closure care costs related to Phases II, III, IV and V of the landfill. At June 30, 2009, the Corporation has approximately $40,119,000 in the trust funds to meet the financial requirements of closure and post closure care costs related to Phases II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation's total estimate of future landfill closure and postclosure costs is approximately $140,000,000 as of June 30, 2008. The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for

licensure of Phase VI to RIDEM. The Corporation expects to record an approximately additional $80,000,000 of closure costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

As a result of some ethical concerns and suspected misuse of Corporation funds raised by the Corporation's Executive Director, a preliminary forensic audit was ordered by the Governor in January 2008. The findings of that audit completed in March 2008 confirmed these concerns and the Governor then ordered a full forensic audit. On September 22, 2009 the Bureau of Audits released the results of its examination of the Corporation. Although none of the findings are expected to have a significant impact on the Corporation's financial position, the audit did reveal $75,000,000 in claims for lost value during the eight year period examined. The State has begun the legal process required to collect insurance proceeds covering up to $12,000,000 of the damages, and could also seek additional recovery from other private parties identified in the audit. The State reached a settlement in June 2010 with one of the insurers for $5,000,000. Based on the results of the audit, and subsequent comments made by the Rhode Island State Police, criminal charges are unlikely to be filed.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2009, the Agency has issued bonds in the aggregate amount of $777,115,000 to fund $872,196,309 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2009 is $428,800,000 in the clean water state revolving fund (CWSRF wastewater projects), $59,360,000 for three conduit financings and $114,445,000 in the drinking water state revolving fund. Also, in years 1997 through 2009, the Agency made a total of $41,430,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $28,213,037 in direct loans out of the Drinking Water State Revolving Fund and $58,095,000 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 in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 257 buses and 140 vans carrying approximately 25.3 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to $1.00 to $1.50 and then to $1.75 in July 2008. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2009, audited results of operations reveal that State-operating assistance to the Authority totaled $33,613,398, operating revenues totaled $34,009,752, and other revenues totaled $24,761,851.

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

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

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

As of June 30, 2009, the Corporation had revenue bonds outstanding of $1,169,076,268 including conduit debt of $94,463,439 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

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

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2009, the State's expenditure for this purpose was $2,554,276, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2009, the outstanding balance was $18,707,829.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2009, the outstanding balance was $9,000,000.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, to be utilized by Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund.

In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2009, the outstanding balance was $9,180,000.

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, 2009, the outstanding balance was $2,220,000.

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

In November 2003, Rhode Island entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2009, $81,125,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2009 there was $394,280,000 outstanding which were supported by federal revenues.

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

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

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

RIAC 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 used proceeds of State 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 bonds issued for airport purposes. RIAC does not have the power to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 Class I Airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2009, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by thirteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Two 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, 2009:

- American Airlines (while American Airlines has discontinued service, they still maintain a signed agreement)
- Continental Airlines
- Delta Airlines
- Northwest Airlines (Delta has assumed Northwest's operations and is paying for Northwest's vacant space and unused services through the expiration of Northwest's agreement)
- Southwest Airlines
- United Airlines
- US Airways

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

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for the federal fiscal year 2007 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 60th busiest in federal fiscal year 2006, 57th busiest in federal fiscal year 2005, and 58th busiest in federal fiscal years 2003 and 2004.

Actual enplaned passengers for fiscal year 2009 were 218,254 below 2008, resulting in a decrease of 8.8%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn.

General Aviation Airports

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

North Central Airport

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

Quonset Airport

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

Westerly Airport

Located in the southwest portion of Rhode Island in Westerly, Westerly Airport is approximately thirty-five miles from the Airport. Westerly is classified as a commercial service airport and enplanes approximately 9,100 commuter passengers annually.

Newport Airport

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

Block Island Airport

Situated on Block Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 9,700 commuter passengers annually.

Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient funds to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2009 and 2008 was $10.11 million and $11.678 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, 2009 and 2008 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, 2009 and 2008 was $33.605 million and $35.08 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, 2009 and 2008 was $4.005 million and $5.19 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, 2009 and 2008 was $20.6 million and $23.585 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, 2009 and 2008 was $49.155 million and $50.06 million respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2009 and 2008 was $114.66 million and $114.87 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B Airport Revenue Bonds dated May 30, 2008 maturing annually from 2008 through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2009 and June 30, 2008 was $50.88 million and $51.165 million respectively.

Long Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.765 million as of June 30, 2009 and June 30, 2008. The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

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

As part of the financing for the Intermodal Facility Project, RIAC and the EDC have secured additional funds under the U.S. Department of Transportation'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, 2009 and June 30, 2008 approximately $83 thousand had been drawn on the TIFIA loan.

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

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2009, the Corporation had an outstanding principal balance of conduit debt of $89,323,373. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled $13,841,455 as of June 30, 2009.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2009 was $1,583,918,961 consisting of $1,480,114,961 of long-term bonds and $103,804,000 of short-term or convertible-option bonds. Included in the total outstanding is $285,257,986 in bonds, which are secured in part by capital reserve funds which have aggregated to $39,562,797 on June 30, 2009. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2009, the Authority held $759,048,247 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, 2009,

$183,850,910 in Rhode Island Family Education Loans and $228,148,641 in College Bound Loans. As of September 30, 2009, the Authority had $1,075,360,000 of tax-exempt and taxable bonds outstanding.

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

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On 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, 2009 was $990,000.

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, 2009 was $5,765,000.

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

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; 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, 2009, the Corporation had $2,600,179,582 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

Tobacco Settlement Financing Corporation. The Tobacco Settlement Financing Corporation ("TSFC") was created in 2002 as a public corporation, having distinct legal existence from the State and not constituting a department of state government. The TSFC was created to finance the acquisition from the State of the State's right, title and interest in the moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam,

the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company and (ii) the Consent Decree and Final Judgment of the Rhode Island Superior Court for Providence County dated December 17, 1998, as the same has been and may be corrected, amended or modified, in the class action styled State of Rhode Island v. American Tobacco, Inc., et al. (Docket No. 97-3058), including without limitation, the rights of the State to receive the moneys due to it thereunder.

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts" for the years 2004-2043. As of June 30, 2009, the TSFC had $625,435,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional $197.0 million of its TSAC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $822,440,742 of bonds outstanding as of June 30, 2009.

In accordance with the Act, the TSAC 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 TSAC bonds. The TSAC 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 the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only, 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 June 5, 2010 the State had 14,990 paid employees. This equates to approximately 13,614.7 full-time equivalent positions. Of this amount, 10,924 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,644 employees, or 33.4 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (820 employees); the Rhode Island Brotherhood of Correctional Officers (1,092 employees); the American Association of University Professors (694 employees) to name a few. In addition, there are 4,066 non-union employees. Contracts with all but two of the collective bargaining units expired on or prior to June 30, 2008. During the summer of 2008, the Administration negotiated a four year agreement which required approval of the various union memberships, and which reflected a portion of the savings to the State needed in order to accomplish the proposed $50.2 million general revenue savings in personnel costs to balance the originally Enacted FY 2009 Budget. The State and the Rhode Island Brotherhood of Correctional Officers also utilized the

interest arbitration process to determine the collective bargaining agreements for 2006 through 2009 and 2009 through 2012. The interest arbitration panel issued their awards on March 31, 2010. The parties are in the process of implementing these awards. The State Police union has a contract which expired on April 20, 2009, and discussions have been started on that contract.

As part of the FY 2010 budget, and to continue the initiatives begun in the FY 2009 Budget, the Governor agreed to, and the General Assembly enacted, several measures designed to reduce the overall cost of the workforce. The FY 2010 Revised Budget includes a reduction of 522.2 FTE positions from the enacted level of 14,863.0, based on a 50 percent reduction in current agency vacancies. The FY 2010 Revised Budget also included $170.6 million in salary cost savings resulting from the inclusion of eight pay reduction days, following negotiations with the unions. The FY 2011 Enacted Budget provides that state employee full time equivalent positions be increased from the FY 2010 revised enacted level of 14,340.8 to 14,827.6 in FY 2011. The FY 2011 Enacted Budget also includes $8.99 million in salary cost savings resulting from the inclusion of four pay reduction days, as well as $9.6 million in savings resulting from a postponement of the July 1, 2010 cost of living adjustment to January 1, 2011. Savings are also included in medical benefits (a 10.6 percent reduction in working rates in FY 2010, and a 10.0 percent in FY 2011), and in assessed fringe benefits (a $1.6 million reduction due to a revised estimate for unused leave, unemployment, and worker's compensation). The FY 2011 Enacted Budget also includes new provisions in the pension system for state employees, teachers, and judges who were not eligible for retirement in September 30, 2009 and are not eligible to retire as of the enactment of the proposal. These provisions limit cost of living adjustments to the first $35,000 of the retirement allowance, indexed to inflation but capped at 3 percent, beginning in the third anniversary of the date of retirement or age 65, whichever is later. Savings from this action are estimated at $16.0 million in general revenue expenditure, $5.7 million from state employees and judges, and $10.3 million from teachers ($4.2 million from the state share and $6.1 million from the municipalities). As a result of changes that were enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there were a significant number of state employees who have retired. As of May 22, 2010, there were 13,596.5 FTE positions filled, 1,231.1 less than the authorized amount in the FY 2011 Enacted Budget. Since July 1, 2007, the State has reduced the FTE employed by 1,351.8. As a result of the significant decline in the number of State employees from the levels provided for in the enacted budget for FY 2008 (15,688.7), the State will be confronted with the challenge of reorganizing staffing to effectively render services to its residents with fewer employees.

STATE RETIREMENT SYSTEMS

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. Health insurance benefits are provided by the State for ERSRI members retiring on or after July 1, 1989 through the Department of Administration. 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, 2008, there are 43 active members and seven retirees and beneficiaries of the JRBT and 177 active members and four retirees and beneficiaries of the SPRBT. Pensions for state police officers and judges hired prior to the dates reflected above for each of the plans are funded on a pay-as-you-go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods for ERSRI, JRBT, and SPRBT 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 21 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

The State's total contributions (exclusive of contributions by LEAs for teachers and employee contributions) to the ERSRI, JRBT and SPRBP were $195.23 million in FY 2007, $219.86 million in FY 2008, $204.93 million in FY 2009 and are estimated to be $216.6 million for FY 2010 and $225.9 million for FY 2011 based upon the actuarial report as of June 30, 2008. The State has made 100% of its actuarially determined contributions to the pension system for each of the past fifteen years. For more detailed information regarding the funding policy and annual pension costs of the State, see Note 13 – Employer Pension Plans to the State's audited financial statements for the fiscal year ending June 30, 2009 attached hereto as Exhibit A.

Progress Toward Realization of Financing Objectives

As of June 30, 2008, the date of the last actuarial valuation, the total UAAL for the pension plans was $4.35 billion, which consists of $1.67 billion for State employees, $2.66 billion for teachers, $14.1 million for state police and $7.8 million for judges. For further information relating to the funding progress of the ERSRI, the State pension plan in which substantially all of the unfunded actuarial accrued liability resides, see the table later provided entitled "Schedule of Funding Progress".

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio increased from 57.5% to 61.8% during the period July 1, 2007 to June 30, 2008, while for teachers the ratio increased from 55.4% to 60.3% over the same period. During the same period, the funded ratio decreased from 83.8% to 81.7% for the judges and increased for the state police from 76.1% to 79.6%. These are based on the Entry Age Normal funding method effective June 30, 1999.

The State's unfunded pension liability as reflected in the actuarial valuation as of June 30, 2008, is primarily due to the level of benefits being provided to employees under the plans and the failure of investment returns under the plans to historically meet the annual investment return assumption of 8.25%. The average annual return for the plans based on the market value of assets over the period from July 1, 1998 to June 30, 2008 was 5.15%. The average annual return for the plans based on the actuarial value of assets over the same period was 6.05%.

Subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds declined significantly, consistent with overall declines in the domestic and international financial market due to the economic recession, which put even further financial stress on the State's pension system. At June 30, 2009 declines were approximately 19.2% compared to the fair value of investments at June 30, 2008 and approximately 27.4% compared to the value of the funds in January 2008. Subsequent to June 30, 2009, the System has seen a significant recovery within the capital markets that began during the second quarter (calendar 2009). Initiatives to maintain exposures while reducing costs began in 2008 and are proving to be beneficial throughout 2009. The State's discontinuance of securities lending practices within its investment portfolio prior to the disruption in the capital markets has also proven to be a risk to reward decision that appears to have been prudent. The State Investment Commission has adopted a long-term investment policy for the System's investments, which includes diversification of holdings pursuant to an asset allocation model. In addition, the impact on the funded status of the System's plans and required contributions due to any near-term decline in value of the System's investments will be tempered by the five-year smoothing method employed in calculating the actuarial value of assets.

Pension Reform

In the last several years, the State has modified the pension benefit structure in order to address the growing burden that pension obligations were placing on the State budget. The reforms enacted in the 2005, 2008, and 2009 and 2010 Sessions of the General Assembly are described below.

Article 7 of the Fiscal Year 2006 Appropriations Act 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 to ERSRI annually. 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 Retirement Age Eligibility

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

Change in Benefit Accrual Rates

Years of Service (YOS)	Tier I	Tier II Enacted Reform
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

Tier I	Tier II – Enacted Reform
3.0 % annually effective on the 3rd January 1 after retirement	Prior calendar year's U.S. Consumer Price Index, up to a maximum of 3.0 %, effective on the 3rd anniversary after retirement
Tier III Effective June 12, 2010, prior calendar year's U.S. Consumer Price Index, up to a maximum of 3.0 %, effective on retiree's third (3rd) anniversary of the date of retirement or when they reach age sixty-five (65), whichever is later. COLA is limited to the first thirty-five thousand dollars ($35,000) of retirement allowance, indexed annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or three percent (3%), whichever is less. Tier III impacts members who were not already eligible to retire as of June 12, 2010.	

Social Security Option

Tier I	Tier II – Enacted Reform
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

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

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

Article 7 of the FY 2010 Appropriation Act included several provisions that modified ERSRI and JRBT to reduce the cost of employee pensions for the state and for local communities. The total estimated savings from the modifications is $58.6 million, including state savings of $36.4 million and local government savings of $22.3 million. By employee category, state employee savings are $21.3 million ($12.1 general revenue, $5.4 million federal, $949,258 restricted receipts, and $2.9 million other funds), teacher savings $14.9 million (as well as $22.3 million teacher retirement savings accruing to LEAs), and judicial savings of $226,165. A number of unions representing State employees and teachers filed a lawsuit challenging and attempting to block the Article 7 pension reform enacted by the General Assembly during the 2009 Session. This suit has just been filed in Rhode Island State Court and could impact some or all of the estimated savings relating to such pension reform.

The enacted modifications apply to those who retire on or after October 1, 2009 and do not affect those who are eligible for retirement as of September 30, 2009. The following summarizes the modifications contained in Article 7 of the final enacted appropriation.

The pensions for State Employees and Teachers would now be calculated based upon final average compensation for the 5 highest consecutive years of compensation, versus 3 years in prior law. The cost of service credit purchases after June 16, 2009 will be calculated at full actuarial value (except military service and restoration credits) for state and teachers.

The age and service eligibility provisions for State Employees and Teachers are changed to reflect a minimum retirement age of 62 with a minimum of 10 years of service, versus prior law for Tier I employees of 60 years of age and a minimum of 10 years of service or 28 years of service at any age. For Tier II employees, the age and service eligibility provisions are changed to also reflect a minimum retirement age of 62 with 29 years of service or 65 years of age and 10 years of service, versus prior law of 59 years of age and 29 years of service or 65 years of age and a minimum of 10 years of service or 55 years of age and 20 years of service with actuarial reduction. For correctional officers and MHRH nurses, who are eligible to retire under current law at age 50 with 20 years of service (correctional officers) or with 25 years of service (MHRH nurses), similar proportionate eligibilities would be applied with minimum retirement eligibilities of age 55 with 25 years of service.

For active state employees and teachers in the system as of October 1, 2009, the minimum retirement age of 62 will be proportionally adjusted downward based on the member's first point of pension eligibility under the prior law as of September 30, 2009.

For example, if a Tier I employee was hired at age 22, he or she could expect to be eligible to retire under prior law at age 50 with 28 years of service. If the member has 14 years of service at Sept. 30, 2009, they have earned half of the necessary service (i.e., 14 years earned out of 28 needed to retire at age 50). Rather than requiring the member to work until 62 for an unreduced retirement benefit, the minimum retirement age of 62 age is adjusted downwards by half the difference between ages 62 and 50. Therefore, the member could first retire at age 56.

If that same hypothetical member had 21 years of service as of September 30, 2009, he or she would have earned 75% of the service needed to retire under prior law and would then be eligible to retire at age 53 [(62 - 50) x 75% = 9 and then [62-9=53]. If the member had already earned 28 years of service, he or she would be grandfathered under the prior law Tier I benefits.

Article 7 also modifies the future benefit accrual schedule for members of ERSRI in Tier I, except for grandfathered members. After September 30, 2009, each Tier I member would be entitled to receive a benefit equal to his or her Final Average Compensation multiplied by an accrual factor. The accrual factor would be the sum of (a) the member's percentage accrual under Tier I for service through September 30, 2009, plus (b) the member's accrual under Tier II for service after September 30, 2009. For example, a member in Tier I with 23 years of service at September 30, 2009 would have an accrual of 45% at that date. If the member retires at September 30, 2014, with 28 years of service, his benefit accrual would be 55.75% (45% at September 30, 2009 + 4% for the next two years under Tier II structure + 6.75% for the next three years under Tier II). The maximum benefit for any Tier I member will remain at 80%. No change is being made to the special formula for correctional officers, and no change is made to members under Tier II.

With respect to pensions relating to accidental disability, members who retire on accidental disability are entitled to receive a lifetime benefit equal to two-thirds of their salary at the time of disability. Article 7 makes several modifications to the provisions governing accidental disability. It would add requirements for the retiree to provide evidence of the continuation of disabled status as requested by the Retirement Board. The Retirement Board would have to determine whether an applicant for an accidental disability retirement benefit is (a) not disabled, (b) disabled from service, or (c) permanently and totally disabled from any employment. For members who meet the stronger test of totally and permanently disabled from all employment, the current benefit (66 2/3% of salary) would be unchanged. For members found to be only disabled from service, the benefit would be reduced from 66 2/3% of salary to 50% of salary. These changes take place for disabilities incurred on October 1, 2009 or later.

With respect to the cost of living adjustments, Article 7 provides that all members, except for the grandfathered members, would receive a COLA under the Tier II provisions. That is, the COLA paid each year would be limited to the lesser of the increase in the Consumer Price Index or 3%, and the first increase would be paid on the third anniversary of the member's retirement.

Article 7 also adjusts judicial pensions. Currently, members who were appointed prior to January 1, 2009 receive a 100% benefit if they retire after reaching age 65 with 20 years of judicial service or if they retire after age 70 with 15 years of judicial service. Members with these same years of service and ages appointed on or after January 1, 2009 receive a 90% benefit, and take an additional 10% reduction to 80% if they wish to elect the spouse's death benefit. Under Article 7, members appointed on or after July 1, 2009 would receive an 80% benefit, or a 70% benefit if they wish to elect the spouse's death benefit.

Reduced Retirement: Currently, members who were appointed prior to January 1, 2009 receive a 75% benefit if they retire with at least 20 years of service prior to age 65, or if they retire after reaching age 65 with 10 years of service. Members appointed on or after January 1, 2009 receive a 70% benefit, and take an additional 10% reduction to 60% if they wish to elect the spouse's death benefit. Under Article 7, members appointed on or after July 1, 2009 would receive a 65% benefit, or a 55% benefit if they wish to elect the spouse's death benefit.

Finally, judge's retirement benefit is based on his pay at the time of retirement if he was appointed on or before July 2, 1997. For members appointed after that date, benefits are based on an average of the member's three highest yearly salaries. Under Article 7, benefits for members appointed on or after July 1, 2009 will be based on a five-year average of the member's salaries

Article 16 of the Fiscal Year 2011 Appropriations Act modified cost of living adjustments (COLA) for State Employees', Teachers and Judges' pensions. Under Article 16, retirees' COLA will now only apply to the first thirty-five thousand dollars ($35,000) of retirement allowance, indexed annually, and shall commence upon the retiree's third (3rd) anniversary of the date of retirement or when they reach age sixty-five (65), whichever is later. The thirty-five thousand dollar ($35,000) limit will increase annually by the percentage increase in the Consumer Price Index for all Urban Consumer (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or three percent (3%), whichever is less.

Article 16 will reduce the cost of employee pensions for the State and for local communities. The total estimated savings from the modifications is $16.0 million, including State savings of $9.9 million and local government savings of $6.1 million.

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 below shows a historical summary of the funded ratios and other information for ERSRI. The notes to required supplementary information show 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 (Development of Contribution Rates) 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, 2008

		State Employees	Teachers
1.	Compensation		
	(a) Supplied by ERSRI	$ 617,622,521	$ 928,250,193
	(b) Adjusted for one-year's pay adjustment	587,500,000	985,898,174
2.	Actuarial accrued liability	4,371,829,709	6,705,498,005
3.	Actuarial value of assets	2,700,368,568	4,044,954,378
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,671,461,141	2,660,543,627
5.	Remaining amortization period at valuation date	21	21
6.	Contribution effective for fiscal year ending:	June 30, 2011	June 30, 2011
7.	Payroll projected for two-year delay	615,596,250	1,071,480,298
8.	Amortization of UAAL	127,869,711	204,051,600
9.	Normal cost		
	(a) Total normal cost rate	9.62%	10.53%
	(b) Employee contribution rate	8.75%	9.50%
	(c) Employer normal cost rate (a - b)	0.87%	1.03%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	0.87%	1.03%
	(b) Amortization payments (8 / 7)	20.77%	19.04%
	(c) Total (a + b)	21.64%	20.07%
11.	Estimated employer contribution amount (7 x 10(c))	$ 133,215,029	$ 215,046,096

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Employees						
June 30, 1999	$2,201,890,748	$2,607,397,329	$405,506,581	84.4%	$494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
June 30, 2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%
June 30, 2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%
June 30, 2008	2,700,368,568	4,371,829,709	1,671,461,141	61.8%	587,500,000	284.5%
Teachers						
June 30, 1999	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	120.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	141.5%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June,30 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%
June 30, 2006	3,394,086,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%
June 30, 2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%
June 30, 2008	4,044,954,378	6,705,498,005	2,660,543,627	60.3%	985,898,174	269.9%

*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 FY Ended June 30	State Employees Annual Required Contribution	Percentage Contributed	Teachers (State) Annual Required Contribution	Percentage Contributed	Teachers (Local) Annual Required Contribution	Percentage Contribution
2009	$126,297,706	100%	$73,600,069	100%	$115,234,100	100%
2008	131,560,248	100%	82,455,777	100%	122,906,860	100%
2007	118,389,603	100%	70,531,472	100%	109,415,227	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%

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

Item	State Employees	Teachers
(1)	(2)	(3)
Valuation date	June 30, 2008	June 30, 2008
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of Payroll - Closed	Level percent of Payroll - Closed
Remaining amortization period	21 years	21 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase	4.50% to 9.0%	4.50% to 13.25%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A (grandfathered)	3.00%	3.00%
Cost of Living Adjustment – Schedule A (nongrandfathered)	2.50%	2.50%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

Schedule A members are those who have at least 10 years of contributing service as of June 30, 2005; Schedule B members are all others. The grandfathered Schedule A members are those retired or eligible to retire on October 1, 2009.

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 order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service and based on the cost of an active employee health benefit plan. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan. Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2007 was determined to be approximately $788.2 million, including $679.5 million for State employees, $54.6 million for State Police, $29.7 million for Legislators, and $14 million for Judges, and $10.2 million for the State's share for teachers. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2009, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 7.91%, 29.83%, 116.91% and 11.64% (no rate for teachers), respectively. The $788.2 million unfunded liability as of June 30, 2007 reflects an increase from the calculated unfunded liability of $643.5 million as of June 30, 2005 (based on a discount rate of 3.566%). The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liability as of June 30, 2007 utilizing an investment rate of 5.0% was $655.2 million. The total contributions made by the State and the other participating employees for retiree medical benefits were $37.9 million in FY 2009, which contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and administrative costs. The State has not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities, which continue to grow. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted which would require the State to fund on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities and assets. The actuarial valuation report as of June 30, 2007 reflected that the annual required contribution for FY2010 would be $56,917,900 (based on a discount rate of 3.566%). During the 2009 Session of the General Assembly, the actuarial funding requirement was delayed until FY2011 due to budget constraints. For further information on retiree medical benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2009 attached hereto as Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has reached a settlement in the case for $10,000,000, and the settlement payment was made by the State on May 21, 2010

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

In May 2010, the Rhode Island Council 94 and seven other unions filed an action in the State Superior Court against the Governor of the State of Rhode Island and other State officials in their official capacities and the Employee's Retirement System of the State of Rhode Island to request the Court to declare that the changes adopted by the State in connection with the FY 2010 Appropriation Act reducing pension benefits to certain State and municipal employees are unconstitutional and violate the Rhode Island Constitution's Contract Clause (Art. 1, Section 12) and Takings Clause (Art. 1, Section 16). The change in the laws with respect to pension benefits were adopted in order to reduce the costs to the State and local government for employee pensions in the aggregate amount of approximately $58.6 million. The State intends to vigorously contest the lawsuit.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and construction of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Raito's claims total approximately $9 million, consisting of an alleged unpaid contract balance of approximately $2.8 million and approximately $6.2 million in purported extra work. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

In late 2009 Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several state employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $15,000,000. The State has denied the claim in its totality and will contest all damages.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties have appealed to the Board of Regents and their appeals are currently pending. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department of Education will be submitting a reply brief in this matter.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2009, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services

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Exhibit A – Audited Financial Statements of the State for the Fiscal Year Ended June 30, 2009

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

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 14% of the revenues and net additions of the fiduciary funds within the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 70% of the assets and 1% of the revenues of the business-type activities; and

- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

Exhibit A-1

management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

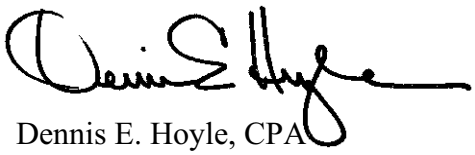
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in note 18D, the General Fund had a fiscal 2009 operating deficit of $36.7 million resulting from a deficiency of general revenue compared to general revenue expenditures. The unreserved fund balance (deficit) of the General Fund was ($62.3) million at June 30, 2009.

As described in notes 1(R), 6(F), and 18(C), the State implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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-3 through A-17, the Budgetary Comparison Schedules on pages A-68 through A-69, and the Schedules of Funding Progress on pages A-69 through A-70 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Dennis E. Hoyle, CPA
Acting Auditor General

April 6, 2010

Management 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, 2009. 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, 2009 by $789.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,550.9) million was reported as unrestricted net assets (deficit), $440.3 million was restricted net assets, and $1,899.7 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 decreased by $209.8 million in fiscal year 2009. Net assets of governmental activities decreased by $40.6 million, while net assets of the business-type activities decreased by $169.2 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of $889.3 million, an increase of $204.0 million in comparison with the previous fiscal year, primarily as a result of debt issued during the year pending disbursement.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance (deficit) of ($62.3) million, a decrease of $19.4 million from June 30, 2008.
  - The Budget Reserve and Cash Stabilization Account ended the fiscal year with a balance of $80.1 million, a decrease of $22.8 million in comparison with the previous fiscal year. In fiscal year 2009, $22 million was appropriated from the Budget Reserve Account to mitigate the effect of a projected general revenue shortfall.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $0.2 million, which was a decrease of $7.4 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of $268.1 million an increase of $115.4 million in comparison with the previous fiscal year. Of the fund balance, $15.6 million is reserved for debt.
- The Rhode Island State Lottery transferred $337.5 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $16.8 million in comparison with the previous fiscal year. In addition, $6.8 million was also transferred to the Permanent School Fund in fiscal year 2009.
- The Employment Security Fund ended the fiscal year with net assets of $6.8 million, a decrease of $171.2 million compared with the prior year. This decrease was primarily attributable to a significant increase in unemployment benefits paid as a result of the high unemployment rate in the State. This necessitated the borrowing of $70.3 million from the Federal Unemployment Trust Fund.

- The R.I. Convention Center Fund ended the fiscal year with net asset deficiency of $44.6 million, a reduction of $1.3 million compared with the prior year. The Fund has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is more than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

  Governmental funds include the general fund and special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these

nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Major Features of the Basic Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds, 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 $789.1 million at the end of fiscal year 2009, compared to $998.9 million at the end of the prior fiscal year. The primary reason for the $209.8 million decrease was that resources accumulated in prior years were used to fund some of the current year expenses. Governmental activities have unrestricted net assets (deficit) of ($1,543.7) million.

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

State of Rhode Island's Net Assets as of June 30, 2009
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Current and other assets	$ 1,610,728	$ 1,413,978	$ 120,086	$ 223,419	$ 1,730,814	$ 1,637,397
Capital assets	2,855,528	2,784,026	205,282	208,595	3,060,810	2,992,621
Total assets	4,466,256	4,198,004	325,368	432,014	4,791,624	4,630,018
Long-term liabilities outstanding	2,796,056	2,476,054	335,548	268,980	3,131,604	2,745,034
Other liabilities	834,565	845,762	36,394	40,353	870,959	886,115
Total liabilities	3,630,621	3,321,816	371,942	309,333	4,002,563	3,631,149
Net assets:						
Invested in capital assets, net of related debt	1,959,118	1,877,872	(59,453)	(60,902)	1,899,665	1,816,970
Restricted	420,215	427,588	20,130	198,928	440,345	626,516
Unrestricted	(1,543,698)	(1,429,272)	(7,251)	(15,345)	(1,550,949)	(1,444,617)
Total net assets *(as restated)	$ 835,635	$ 876,188	$ (46,574)	$ 122,681	$ 789,061	$ 998,869

* - Cumulative effect of prior period adjustments is fully explained in note 18C.

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,550.9) million at June 30, 2009 in the Statement of Net Assets. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

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

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

Changes in Net Assets

The State's net assets decreased by $209.8 million during the current fiscal year. Total revenues of $8,339.8 million were less than expenses of $8,549.6 million. Approximately 31.0% of the State's total revenue came from taxes, while 28.9% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 38.4% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 31.8% and education, 15.1%. In fiscal year 2009, governmental activity expenses exceeded program revenues by $3,064.8 million, which resulted in the use of $2,708.8 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2009 exceeded expenses by $130.1 million.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	$ 428,854	$ 449,812	$ 2,772,889	$ 2,601,083	$ 3,201,743	$ 3,050,895
Operating grants and contributions	2,114,821	1,827,704	194,857	3,285	2,309,678	1,830,989
Capital grants and contributions	103,515	112,712			103,515	112,712
General revenues:						
Taxes	2,588,417	2,820,709			2,588,417	2,820,709
Interest and investment earnings	9,435	32,466	4,279	9,531	13,714	41,997
Miscellaneous	95,758	121,273	11,782	8,341	107,540	129,614
Gain on sale of capital assets	1,656	3,026			1,656	3,026
Payments from component units	13,569	39,284			13,569	39,284
Total revenues	5,356,025	5,406,986	2,983,807	2,622,240	8,339,832	8,029,226
Program expenses:						
General government	754,386	894,766			754,386	894,766
Human services	2,719,346	2,736,956			2,719,346	2,736,956
Education	1,287,577	1,361,310			1,287,577	1,361,310
Public safety	414,830	428,351			414,830	428,351
Natural resources	75,103	90,087			75,103	90,087
Transportation	324,007	240,644			324,007	240,644
Interest	136,737	133,298			136,737	133,298
Lottery			2,215,602	2,042,722	2,215,602	2,042,722
Convention Center			48,764	41,007	48,764	41,007
Employment insurance			573,288	259,246	573,288	259,246
Total expenses	5,711,986	5,885,412	2,837,654	2,342,975	8,549,640	8,228,387
Change in net assets before transfers	(355,961)	(478,426)	146,153	279,265	(209,808)	(199,161)
Transfers	315,408	324,928	(315,408)	(324,928)		
Change in net assets	(40,553)	(153,498)	(169,255)	(45,663)	(209,808)	(199,161)
Net assets - Beginning	829,461	982,959	122,681	168,344	952,142	1,151,303
Cumulative effect of prior period adjustments	46,727				46,727	
Net assets - Beginning, as restated	876,188	982,959	122,681	168,344	998,869	1,151,303
Net assets - Ending	$ 835,635	$ 829,461	$ (46,574)	$ 122,681	$ 789,061	$ 952,142

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

Management Discussion and Analysis

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 $889.3 million, an increase of $204.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $80.1 million for a "rainy day" account, (2) $52.1 million for continuing appropriations, (3) $90.6 million principally for liquidating debt, (4) $148.4 million for employment insurance programs and (5) $35.2 million for other restricted purposes. Approximately 61.3% or $545.2 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 (deficit) of the General Fund was ($62.3) million, while total fund balance was $70.0 million.

Revenues and other sources of the General Fund totaled $5,218.3 million in fiscal year 2009, a decrease of $135.7 million, 2.53%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

	2009	2008	Increase (decrease) from 2008 Amount	Percent
Taxes:				
Personal income	$ 897,305	$ 1,073,617	$ (176,312)	-16.42%
Sales and use	998,513	1,019,614	(21,101)	-2.07%
General business	345,792	374,800	(29,008)	-7.74%
Other	37,359	48,370	(11,011)	-22.76%
Subtotal	2,278,969	2,516,401	(237,432)	-9.44%
Federal grants	2,001,605	1,740,283	261,322	15.02%
Restricted revenues	133,872	126,090	7,782	6.17%
Licenses, fines, sales, and services	295,069	322,864	(27,795)	-8.61%
Other general revenues	30,307	41,200	(10,893)	-26.44%
Subtotal	2,460,853	2,230,437	230,416	10.33%
Total revenues	4,739,822	4,746,838	(7,016)	-0.15%
Other sources	478,516	607,153	(128,637)	-21.19%
Total revenue and other sources	$ 5,218,338	$ 5,353,991	$ (135,653)	-2.53%

The increase in Federal grants of $261.3 million is primarily attributable to $255.2 million of new funds received by the State under the American Recovery and Reinvestment Act (ARRA) which was enacted on February 17, 2009. ARRA provided funding for a number of programs primarily in the Human Services, General Government and Education categories.

Expenditures and other uses totaled $5,255.0 million in fiscal year 2009, a decrease of $136.5 million, 2.53%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

	2009	2008	Increase (decrease) from 2008 Amount	Percent
General government	$ 586,628	$ 626,052	$ (39,424)	-6.30%
Human services	2,711,167	2,727,534	(16,367)	-0.60%
Education	1,217,271	1,289,124	(71,853)	-5.57%
Public safety	401,976	410,605	(8,629)	-2.10%
Natural resources	68,932	72,982	(4,050)	-5.55%
Debt Service:				
Principal	102,683	92,077	10,606	11.52%
Interest	67,273	68,478	(1,205)	-1.76%
Total expenditures	5,155,930	5,286,852	(130,922)	-2.48%
Other uses	99,104	104,650	(5,546)	-5.30%
Total expenditures and other uses	$ 5,255,034	$ 5,391,502	$ (136,468)	-2.53%

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was $0.2 million, while the total fund balance was $35.4 million. Total fund balance of the ISTEA fund decreased by $13.0 million during the current fiscal year. The primary reason for this decrease was a reduction in gasoline taxes collected.

GARVEE Fund. The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of $268.1 million, an increase of $115.4 million. The reason for this increase was the issuance of $181.8 million of special obligation bonds.

General Fund Budgetary Highlights

Prior to FY2009, according to the State's Constitution, general revenue appropriations in the general fund could not exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue was transferred to the Reserve. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the RI Capital Plan Fund to be used for capital projects. In FY2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For years subsequent to FY2009 the spending cap will decrease by .2% and the reserve limitation will increase by .4% each year until FY2013 when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in a decrease of $258.2 million, 7.7%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $268.4 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

General revenues	Original Budget vs. Final Budget Change (In thousands)	Percent
Taxes		
Personal Income	$ (153,635)	-13.7%
Business Corporations	(49,000)	-30.4%
Public Utilities Gross Earnings	15,000	15.0%
Sales and Use	(39,900)	-4.6%
Motor Vehicle	5,132	11.2%
Cigarettes	16,500	14.4%
Inheritance and Gift	(7,800)	-20.5%
Departmental Revenue	(17,477)	-5.0%
Other		
Transfer from Lottery	(27,400)	-7.5%
Other General Revenue	344	
Total Change in Estimated Revenue	$ (258,236)	-7.7%
General revenue appropriations		
Department		
Administration	$ 6,452	1.4%
Revenue	(5,055)	-13.4%
Children, Youth and Families	24,254	17.7%
Health	(4,245)	-13.2%
Human Services	(107,431)	-14.0%
Mental Health, Retardation and Hospitals	(36,566)	-16.7%
Elementary and Secondary Education	(103,303)	-11.1%
Board of Governors for Higher Education	(8,975)	-5.0%
Corrections	(23,465)	-13.1%
Judicial	(3,313)	-3.9%
Public safety	(2,865)	-4.3%
Environmental Management	(2,224)	-6.2%
Other	(1,616)	
Total Change in Appropriations	$ (268,352)	-9.2%

The General Fund ended fiscal year 2009 with an unreserved fund balance deficit of $62.3 million. The deficit increased by $19.4 million from June 30, 2008. The primary factor that caused the increase was a shortfall in actual general revenues vs. the final budgeted amounts of $63.3 million. Deficiencies were experienced in all major categories of general revenue. The two largest general revenue shortfalls were in Personal Income Taxes-$30.1 million and Sales and Use Taxes-$15.3 million. These were a result of the severe economic downturn that affected the nation and especially the Northeast region in fiscal year 2009. Due to a number of aggressive cost control measures that were implemented during the fiscal year, general revenue expenditures were equal to final appropriated amounts. In addition, the General Assembly appropriated $22 million from the Budget Reserve and Cash Stabilization Account which mitigated the effect of the general revenue shortfall.

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, 2009, amounts to $3,060.8 million, net of accumulated depreciation of $1,763.4 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 2.3% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

Actual expenditures to purchase or construct capital assets were $202.9 million for the year. Of this amount, $131.8 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $125.3 million.

State of Rhode Island's Capital Assets as of June 30, 2009
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Capital assets not being depreciated						
Land	$ 344,442	$ 342,307	$ 45,558	$ 45,558	$ 390,000	$ 387,865
Works of Art	314	239			314	239
Intangibles	145,180	136,510			145,180	136,510
Construction in progress	494,250	834,460	412	1,567	494,662	836,027
Total capital assets not being depreciated	984,186	1,313,516	45,970	47,125	1,030,156	1,360,641
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	577,823	517,249	233,047	163,303	810,870	680,552
Building improvements	208,342	208,342			208,342	208,342
Equipment	230,558	224,926	22,407	83,395	252,965	308,321
Intangibles	8,428	8,428			8,428	8,428
Infrastructure	2,509,729	2,064,005			2,509,729	2,064,005
	3,538,580	3,026,650	255,454	246,698	3,794,034	3,273,348
Less: Accumulated depreciation	1,667,238	1,556,140	96,142	85,228	1,763,380	1,641,368
Total capital assets being depreciated	1,871,342	1,470,510	159,312	161,470	2,030,654	1,631,980
Total capital assets (net) *	$ 2,855,528	$ 2,784,026	$ 205,282	$ 208,595	$ 3,060,810	$ 2,992,621

* - As restated

The State has a number of significant capital projects in process including the modernization of IT systems and office facilities for the Division of Motor Vehicles, construction of a new facility for the School for the Deaf, construction of a new facility for the College of Pharmacy at the University of Rhode Island and construction of a new headquarters/training facility for use by the R.I. State Police. In addition, a number of significant highway and bridge improvement projects are underway, including relocation of a major portion of Interstate I-195 and construction of a new Sakonnet River Bridge. Finally, the State is making a significant investment in commuter rail service by expanding service from Providence to Warwick's T.F. Green Airport and Wickford Station in Washington County.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,523.1 million of which $1,036.2 million is general obligation debt, $658.5 million is special obligation debt and $828.4 million is debt of the blended component units. Additionally, accreted interest of $23.9 million has been recognized for debt on one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $300.2 million during the current fiscal year. This increase is the net of $39.1 million increase in general obligation debt, an increase of $300.4 million in special obligation debt and a decrease of $39.3 million in the blended component units debt. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued $107.8 million of general obligation bonds of which $12.4 million were refunding bonds used to refund $12.6 million of outstanding bonds and $331.8 million of special obligation bonds. The special obligation bonds include $150 million of revenue bonds issued on behalf of the State under the Historic Structures Tax Credit Financing Program. The special obligation bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement with RIEDC to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the Bonds are being used to provide funds for redemption of Historic Structures Tax Credits redeemed in FY2009 and the following two fiscal years.

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 $269.4 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

At the November 2009 Revenue Estimating Conference (REC) the enacted FY 2010 estimate of general revenues was revised downward by $130.4 million. Of the 19 general revenue sources that are estimated at the REC, 12 were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales and Use Tax, and Business Corporation Tax. The estimated Lottery Transfer to the general fund and Departmental Receipts were revised upward. The revised FY 2010 estimate of total general revenues is $2.946.4 billion, a 4.2 percent decrease from the enacted FY 2010 estimate.

In addition, the first quarter report for FY 2010 prepared by the Budget Office and issued on November 13, 2009 projects that expenditures will exceed appropriations for a number of programs by $34.6 million. Also, the estimated opening deficit of $61.8 million for FY 2010

contributes to the total general revenue deficit for FY 2010. In total, the general revenue deficit for FY 2010 is projected to be $219.8 million according to Budget Office's first quarter report.

On December 15, 2009 the Governor announced a supplemental budget proposal for FY 2010. This proposal includes a number of measures designed to eliminate the FY 2010 budget deficit discussed above. Among the measures in the supplemental budget proposal are expenditure reductions totaling $155.2 million and non-recurring revenues and transfers totaling $38.1 million.

The Lottery's largest video lottery facility, Twin River, commenced a bankruptcy proceeding in June 2009. A reorganization plan is pending before the bankruptcy court whereby the lenders shall become the new owners of the facility and search for a new operator to replace the debtors. Twin River has continued to remain open and the State's share of revenue has been remitted. Various legislative proposals are pending regarding operation of the facility, the State's investment in marketing and management of the facility, as well as proposing the voters consider an expansion of the facility's gaming options.

In accordance with GASB Statement No.45 the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2007 has determined the State's unfunded actuarial liability to be approximately $788.2 million. Based on a discount rate of 3.566% the State and other participating employers' annual required contribution was determined to be $42.1 million and the net OPEB obligation as of June 30, 2009 was $20.8 million. The State is currently funding the retiree health care program on a pay as you go basis. The Governor's budget for FY2011 proposes that the program be funded on an actuarial basis beginning in FY2011.

A number of unions representing state employees and teachers reportedly plan to file a lawsuit challenging the recently enacted pension reforms. If successful, these challenges could impact some or all of the estimated pension reform savings.

The State sold $350 million of General Obligation Tax Anticipation Notes in August 2009. The notes bear interest at 2.5% and are due on June 30, 2010. The proceeds from these Notes were used to provide working capital. In addition, the General Fund borrows from the R.I. Capital Plan Fund and the R.I. Temporary Disability Insurance Fund to provide short term working capital. The State is continuing to carefully monitor cash flow in order to insure that there are sufficient resources available to retire these Notes at their maturity date. In addition, the State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes and the partial restructuring of the State's disbursement pattern.

The State's unemployment rate is 12.7% which continues to negatively impact the State's overall economic environment and tax collections. The State has borrowed from the Federal Unemployment Trust Fund to continue benefits to unemployed individuals. Borrowings through March 2010 totaled nearly $204 million and further borrowings are anticipated.

Beginning in FY2009, the State received additional federal grant revenue from the federal American Reinvestment and Recovery Act (ARRA). For certain programs where costs are

shared by the federal and state government (e.g., Medicaid), the state share of program costs was temporarily decreased. Such funding has partly mitigated the impact of general revenue shortfalls, which are expected to continue through fiscal years 2010 and 2011.

Economic Factors

The unemployment rate for the State of Rhode Island was 12.5 percent in the fourth quarter of 2009, which is an increase from the rate of 9.0 percent during the fourth quarter of 2008. The State's unemployment rate increased slightly to 12.7 percent in January 2010. The state's unemployment rate compares unfavorably with the U.S. unemployment rate of 9.7 percent as of February 2010. The state's high rate of unemployment is due to at least three factors: the prominent role of the housing sector in the state's economy; the high concentration of blue collar workers as a percent of the state's total labor force; and the small size of the state's economy relative to those of Connecticut, Massachusetts and the country as a whole.

In its February 2010 forecast, Moody's Economy.com noted that despite the "deplorable conditions" of the state's labor market, economic indicators outside the labor market have begun to improve. These economic indicators include residential construction which "has been on a slight upward trend for all of 2009" and industrial production which "has increased since mid-year." Average household income resumed positive growth in the second quarter of 2009 although the rate of growth is sluggish and trails the rate of inflation. The state's economy is expected to hit bottom in 2010 with a real recovery commencing in 2011. The recovery is expected to be slow due to the state's labor market situation with the state not regaining "its peak employment level until 2014, well after the U.S."

Rhode Island's economy faces long-term challenges. The state is ranked among the bottom 10 states for its business tax climate. The total state and local tax burden has diminished but is still higher than the U.S. average and one of the highest in New England. The state has high energy costs and relatively low household incomes vis-à-vis home prices.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2009
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 336,108	$ 15,221	$ 351,329	$ 266,909
Funds on deposit with fiscal agent	426,313	17,772	444,085	
Investments	177		177	45,297
Receivables (net)	432,452	64,267	496,719	237,471
Restricted assets:				
Cash and cash equivalents	7,537	13,363	20,900	264,539
Investments	73,247		73,247	285,417
Receivables (net)				22,472
Other assets				11,669
Due from primary government		1,050	1,050	50,815
Due from component units	4,416		4,416	232
Internal balances	1,087	(1,087)		
Due from other governments and agencies	211,772	3,212	214,984	346
Loans to other funds	1,082		1,082	
Inventories	1,660	738	2,398	7,393
Other assets	65,067	934	66,001	12,095
Total current assets	1,560,918	115,470	1,676,388	1,204,655
Noncurrent assets:				
Investments				111,373
Receivables (net)	8,261		8,261	1,827,955
Restricted assets:				
Cash and cash equivalents				131,976
Investments				111,040
Receivables (net)				1,543,838
Other assets				160,698
Due from component units	25,413		25,413	
Capital assets - nondepreciable	984,186	45,970	1,030,156	669,796
Capital assets - depreciable (net)	1,871,342	159,312	2,030,654	1,409,636
Other assets	16,136	4,616	20,752	75,513
Total noncurrent assets	2,905,338	209,898	3,115,236	6,041,825
Total assets	4,466,256	325,368	4,791,624	7,246,480
Liabilities				
Current Liabilities:				
Cash overdraft	1,600		1,600	
Accounts payable	439,709	12,475	452,184	118,385
Due to primary government				4,416
Due to component units	50,815		50,815	98
Due to other governments and agencies		4,063	4,063	22,381
Deferred revenue	10,966	3,797	14,763	32,680
Other current liabilities	112,135	2,257	114,392	258,149
Current portion of long-term debt	219,340	7,765	227,105	189,701
Obligation for unpaid prize awards		6,037	6,037	
Total current liabilities	834,565	36,394	870,959	625,810
Noncurrent Liabilities:				
Due to primary government				25,413
Due to other governments and agencies		70,271	70,271	3,752
Net OPEB obligation	20,725	75	20,800	22,688
Deferred revenue		8,233	8,233	7,065
Due to component units				696
Notes payable				3,744
Loans payable				621,145
Obligations under capital leases	250,158		250,158	13,751
Compensated absences	3,524		3,524	19,804
Bonds payable	2,458,057	256,969	2,715,026	3,518,168
Other liabilities	63,592		63,592	130,917
Total noncurrent liabilities	2,796,056	335,548	3,131,604	4,367,143
Total liabilities	3,630,621	371,942	4,002,563	4,992,953
Net Assets				
Invested in capital assets, net of related debt	1,959,118	(59,453)	1,899,665	1,130,528
Restricted for:				
Budget reserve	80,145		80,145	
Transportation	1,410		1,410	
Debt	90,704	13,363	104,067	633,706
Assistance to Other Entities	47,102		47,102	
Employment insurance program	148,382	6,767	155,149	
Other	51,103		51,103	141,985
Nonexpendable-education	1,369		1,369	95,611
Unrestricted	(1,543,698)	(7,251)	(1,550,949)	251,697
Total net assets	$ 835,635	$ (46,574)	$ 789,061	$ 2,253,527

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, 2009
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 754,386	$ 168,210	$ 83,143	$ 628	$ (502,405)	$	$ (502,405)	$
Human services	2,719,346	187,973	1,617,233	3,648	(910,492)		(910,492)	
Education	1,287,577	8,335	217,799	167	(1,061,276)		(1,061,276)	
Public safety	414,830	32,770	55,214	2,730	(324,116)		(324,116)	
Natural resources	75,103	31,385	15,132	5,934	(22,652)		(22,652)	
Transportation	324,007	181	126,300	90,408	(107,118)		(107,118)	
Interest and other charges	136,737				(136,737)		(136,737)	
Total governmental activities	5,711,986	428,854	2,114,821	103,515	(3,064,796)		(3,064,796)	
Business-type activities:								
State lottery	2,215,602	2,558,930				343,328	343,328	
Convention center	48,764	21,340				(27,424)	(27,424)	
Employment security	573,288	192,619	194,857			(185,812)	(185,812)	
Total business-type activities	2,837,654	2,772,889	194,857			130,092	130,092	
Total primary government	$ 8,549,640	$ 3,201,743	$ 2,309,678	$ 103,515	(3,064,796)	130,092	(2,934,704)	
Component units:	$ 1,235,448	$ 915,127	$ 40,267	$ 157,775				(122,279)
General Revenues:								
Taxes					2,588,417		2,588,417	
Interest and investment earnings					9,435	4,279	13,714	8,853
Miscellaneous					95,758	11,782	107,540	15,973
Gain on sale of capital assets					1,656		1,656	
Transfers (net)					315,408	(315,408)		
Payments from component units					13,569		13,569	
Payments from primary government								247,492
Total general revenues and transfers					3,024,243	(299,347)	2,724,896	272,318
Change in net assets					(40,553)	(169,255)	(209,808)	150,039
Net assets - beginning as restated					876,188	122,681	998,869	2,103,488
Net assets - ending					$ 835,635	$ (46,574)	$ 789,061	$ 2,253,527

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, 2009
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 88,002	$ 26,495	$	$ 180,816	$ 295,313
Restricted cash and cash equivalents				7,537	7,537
Funds on deposit with fiscal agent			275,335	150,977	426,312
Investments				177	177
Restricted investments				73,247	73,247
Receivables (net)	363,793	12,470		50,217	426,480
Due from other funds	2,183	12,714		1,687	16,584
Due from component units	3,088				3,088
Due from other governments and agencies	148,687	63,087			211,774
Loans to other funds	11,003			101,948	112,951
Other assets	58,251			32	58,283
Total assets	$ 675,007	$ 114,766	$ 275,335	$ 566,638	$ 1,631,746
Liabilities and Fund Balances					
Liabilities					
Cash overdraft				1,600	1,600
Accounts payable	388,303	21,150	5,437	15,721	430,611
Due to other funds			573	15,593	16,166
Due to component units	2,779	37,925		9,973	50,677
Loans from other funds	101,948			6,743	108,691
Deferred revenue	26,766	19,722			46,488
Other liabilities	85,252	569	1,261	1,123	88,205
Total liabilities	605,048	79,366	7,271	50,753	742,438
Fund Balances					
Reserved for:					
Budget reserve	80,145				80,145
Appropriations carried forward	52,100				52,100
Debt			15,560	75,028	90,588
Transportation capital projects		35,228			35,228
Employment insurance programs				148,364	148,364
Unreserved, reported in:					
General fund	(62,286)				(62,286)
Special revenue funds		172		93,326	93,498
Capital projects funds			252,504	197,799	450,303
Permanent fund				1,368	1,368
Total fund balances	69,959	35,400	268,064	515,885	889,308
Total liabilities and fund balances	$ 675,007	$ 114,766	$ 275,335	$ 566,638	$ 1,631,746

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, 2009
(Expressed in Thousands)

Fund balance - total governmental funds		$	889,308
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets	4,516,608		
Accumulated depreciation	(1,663,984)		
			2,852,624
Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
Compensated absences	(61,373)		
Bonds payable	(2,547,097)		
Net premium/discount and deferred amount on refunding	(25,689)		
Cost of issuance	13,302		
Obligations under capital leases	(269,340)		
Premium	(5,353)		
Cost of issuance	2,836		
Interest payable	(25,295)		
Other liabilities	(94,025)		
			(3,012,034)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	10,635		
Due from component units	26,576		
Deferred revenue	35,522		
			72,733
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.			33,004
Net assets - total governmental activities		$	835,635

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, 2009
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 2,278,969	$ 129,831	$	$ 180,951	$ 2,589,751
Licenses, fines, sales, and services	295,069			593	295,662
Departmental restricted revenue	133,872	157			134,029
Federal grants	2,001,605	217,211			2,218,816
Income from investments	313	316	1,646	6,739	9,014
Other revenues	29,994	3,258		58,030	91,282
Total revenues	4,739,822	350,773	1,646	246,313	5,338,554
Expenditures:					
Current:					
General government	586,628			168,738	755,366
Human services	2,711,167				2,711,167
Education	1,217,271			8,123	1,225,394
Public safety	401,976				401,976
Natural resources	68,932			9	68,941
Transportation		299,841		40	299,881
Capital outlays			73,642	141,958	215,600
Debt service:					
Principal	102,683	2,714	31,320	21,100	157,817
Interest and other charges	67,273	252	22,435	42,853	132,813
Total expenditures	5,155,930	302,807	127,397	382,821	5,968,955
Excess (deficiency) of revenues over (under) expenditures	(416,108)	47,966	(125,751)	(136,508)	(630,401)
Other financing sources (uses):					
Bonds and notes issued			181,805	245,375	427,180
Refunding bonds issued				12,445	12,445
Proceeds from the sale of Certificates of Participation				54,610	54,610
Premium and accrued interest			6,991	1,109	8,100
Operating transfers in	451,575	40,937	52,302	77,398	622,212
Payments from component units	13,558	10			13,568
Other	13,383				13,383
Payment to refunded bonds escrow agent				(12,697)	(12,697)
Discount on issuance of debt				(66)	(66)
Operating transfers out	(99,104)	(101,944)		(103,303)	(304,351)
Total other financing sources (uses)	379,412	(60,997)	241,098	274,871	834,384
Net change in fund balances	(36,696)	(13,031)	115,347	138,363	203,983
Fund balances - beginning (as restated)	106,655	48,431	152,717	377,522	685,325
Fund balances - ending	$ 69,959	$ 35,400	$ 268,064	$ 515,885	$ 889,308

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, 2009
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 203,983
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.		
Capital outlay	185,636	
Depreciation expense	(113,973)	
		71,663
Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt service		
Principal	157,817	
Debt defeased in refunding	12,565	
Interest and other charges	(14,663)	
Proceeds from sale of debt	(494,235)	
Deferral of premium/discount	(8,036)	
Amortization of premium/discount	6,214	
Deferral of issuance costs	5,940	
Amortization of issuance costs	(1,282)	
		(335,680)
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.		
Compensated absences	5,195	
Program expenses	1,549	
Program revenue	(835)	
Capital grant revenue	(480)	
General revenue - taxes	(1,334)	
General revenue-misc	(6,877)	
		(2,782)
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.		22,263
Change in net assets - total governmental activities		$ (40,553)

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, 2009
(Expressed in Thousands)

	Business-type Activities--Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 11,613	$ 2,555	$ 1,053	$ 15,221	$ 40,791
Restricted cash and cash equivalents		13,363		13,363	
Funds on deposit with fiscal agent			17,772	17,772	
Receivables (net)	4,692	1,114	58,461	64,267	3,600
Due from primary government		1,050		1,050	
Loans to other funds					1,732
Due from other funds	10		603	613	2,663
Due from other governments and agencies			3,212	3,212	
Inventories	738			738	1,660
Other assets	404	530		934	6,948
Total current assets	17,457	18,612	81,101	117,170	57,394
Noncurrent assets:					
Capital assets - nondepreciable		45,970		45,970	
Capital assets - depreciable (net)	808	158,504		159,312	2,905
Other assets		4,616		4,616	
Total noncurrent assets	808	209,090		209,898	2,905
Total assets	18,265	227,702	81,101	327,068	60,299
Liabilities					
Current Liabilities:					
Accounts payable	8,768	3,707		12,475	19,101
Due to other funds	1,700			1,700	1,994
Due to other governments and agencies			4,063	4,063	
Loans from other funds					4,910
Deferred revenue	938	2,859		3,797	
Other current liabilities	1,372	885		2,257	1,188
Bonds payable		7,765		7,765	
Obligation for unpaid prize awards	6,037			6,037	
Total current liabilities	18,815	15,216	4,063	38,094	27,193
Noncurrent Liabilities:					
Due to other governments and agencies			70,271	70,271	
Deferred revenue	8,125	108		8,233	
Bonds payable		256,969		256,969	
Net OPEB obligation	75			75	102
Total noncurrent liabilities	8,200	257,077	70,271	335,548	102
Total liabilities	27,015	272,293	74,334	373,642	27,295
Net Assets					
Invested in capital assets, net of related debt	808	(60,261)		(59,453)	2,905
Restricted for:					
Debt		13,363		13,363	
Employment insurance programs			6,767	6,767	
Unrestricted	(9,558)	2,307		(7,251)	30,099
Total net assets	$ (8,750)	$ (44,591)	$ 6,767	$ (46,574)	$ 33,004

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, 2009
(Expressed in Thousands)

	Business-type Activities--Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 2,558,930	$ 21,043	$ 192,619	$ 2,772,592	$ 338,029
Grants			194,857	194,857	
Miscellaneous		297		297	
Total operating revenues	2,558,930	21,340	387,476	2,967,746	338,029
Operating expenses:					
Personal services	4,764	13,486		18,250	8,647
Supplies, materials, and services	209,384	8,754		218,138	304,794
Prize awards	2,001,214			2,001,214	
Depreciation and amortization	240	11,117		11,357	313
Benefits paid			561,151	561,151	
Total operating expenses	2,215,602	33,357	561,151	2,810,110	313,754
Operating income (loss)	343,328	(12,017)	(173,675)	157,636	24,275
Nonoperating revenues (expenses):					
Interest revenue	664	253	3,362	4,279	422
Other nonoperating revenue	925		10,857	11,782	
Interest expense		(15,407)		(15,407)	
Other nonoperating expenses			(12,137)	(12,137)	19
Total nonoperating revenue (expenses)	1,589	(15,154)	2,082	(11,483)	441
Income (loss) before transfers	344,917	(27,171)	(171,593)	146,153	24,716
Transfers in		28,513	1,856	30,369	
Transfers out	(344,292)		(1,485)	(345,777)	(2,453)
Change in net assets	625	1,342	(171,222)	(169,255)	22,263
Total net assets - beginning	(9,375)	(45,933)	177,989	122,681	10,741
Total net assets - ending	$ (8,750)	$ (44,591)	$ 6,767	$ (46,574)	$ 33,004

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, 2009
(Expressed in Thousands)

	Business-type Activities--Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	$ 2,569,426	$ 21,646	$ 184,010	$ 2,775,082	$ 339,920
Cash received from grants			194,857	194,857	
Cash payments to suppliers for goods and services	(4,552)	(9,411)		(13,963)	(307,371)
Cash payments to employees for services	(4,634)	(13,518)		(18,152)	(14,939)
Cash payments to prize winners	(2,010,904)			(2,010,904)	
Cash payments for commissions	(206,351)			(206,351)	
Cash payments for benefits			(561,139)	(561,139)	
Other operating revenue (expense)			761	761	19
Net cash provided by (used for) operating activities	342,985	(1,283)	(181,511)	160,191	17,629
Cash flows from noncapital financing activities:					
Loan from federal government			70,271	70,271	
Loans from other funds					14,112
Loans to other funds					(6,000)
Repayment of loans to other funds					(19,002)
Repayment of loans from other funds					8,450
Operating transfers in		25,965		25,965	
Operating transfers out	(344,415)		(332)	(344,747)	(3,792)
Net transfers from (to) fiscal agent			111,030	111,030	
Net cash provided by (used for) noncapital financing activities	(344,415)	25,965	180,969	(137,481)	(6,232)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(76,470)		(76,470)	
Interest paid on capital obligations		(14,622)		(14,622)	
Acquisition of capital assets	(146)	(10,821)		(10,967)	(70)
Proceeds from bonds		69,275		69,275	
Net cash provided by (used for) capital and related financing activities	(146)	(32,638)		(32,784)	(70)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments					
Interest on investments	445	284		729	422
Net cash provided by (used for) investing activities	445	284		729	422
Net increase (decrease) in cash and cash equivalents	(1,131)	(7,672)	(542)	(9,345)	11,749
Cash and cash equivalents, July 1	12,744	23,590	1,595	37,929	29,042
Cash and cash equivalents, June 30	$ 11,613	$ 15,918	$ 1,053	$ 28,584	$ 40,791
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	343,328	(12,017)	(173,675)	157,636	24,275
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	240	11,117		11,357	313
Other revenue (expense) and operating transfer in (out)	525		773	1,298	19
Net changes in assets and liabilities:					
Receivables, net	(187)	(229)	(8,609)	(9,025)	532
Inventory	(53)			(53)	967
Prepaid items		121		121	476
Other assets	(10)			(10)	
Due to / due from transactions	138			138	
Accounts and other payables	(1,321)	(810)		(2,131)	(2,662)
Accrued expenses	(98)			(98)	(6,291)
Deferred revenue	18	535		553	
Prize awards payable	405			405	
Total adjustments	(343)	10,734	(7,836)	2,555	(6,646)
Net cash provided by (used for) operating activities	$ 342,985	$ (1,283)	$ (181,511)	$ 160,191	$ 17,629

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 3,313	$	$ 73,930
Deposits held as security for entities doing business in the State			83,861
Receivables			
Contributions	63,669		
Due from state for teachers	15,969		
Due from other plans	34		
Miscellaneous	462		2,371
Total receivables	80,134		2,371
Investments, at fair value			
Equity in Short-Term Investment Fund	2,866		
Equity in Pooled Trust	5,980,801		
Other investments		1,678	
Total investments	5,983,667	1,678	
Property and equipment, at cost, net of accumulated depreciation	5,897		
Total assets	6,073,011	1,678	160,162
Liabilities			
Accounts payable	3,886		2,718
Due to other plans	34		
Net OPEB liability	65		
Deposits held for others			157,444
Total liabilities	3,985		160,162
Net assets held in trust for pension and other benefits	$ 6,069,026	$ 1,678	$

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 170,609	$
Employer contributions	281,895	
State contributions for teachers	73,600	
Interest on service credits purchased	2,396	
Service credit transfer payments	72	
Total contributions	528,572	
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,671,410)	(496)
Interest	82,125	
Dividends	53,502	45
Other investment income	3,968	4
	(1,531,815)	(447)
Less investment expense	20,313	
Net income (loss) from investing activities	(1,552,128)	(447)
Securities Lending		
Securities lending income	15,390	
Less securities lending expense	9,121	
Net securities lending income	6,269	
Total net investment income (loss)	(1,545,859)	(447)
Total additions	(1,017,287)	(447)
Deductions		
Benefits		
Retirement benefits	584,858	
Cost of living adjustment	150,172	
SRA Plus Option	31,788	
Supplemental benefits	1,099	
Death benefits	2,863	
Total benefits	770,780	
Refund of contributions	10,879	
Administrative expense	8,582	
Service credit transfer payments	72	
Distribution		50
Total deductions	790,313	50
Change in net assets	(1,807,600)	(497)
Net assets held in trust for pension benefits		
Net assets - beginning	7,876,626	2,175
Net assets - ending	$ 6,069,026	$ 1,678

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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.

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

Rhode Island Public Rail Corporation (RIPRC) – This corporation was created and established for the purpose of enhancing and preserving the viability of commuter transit operations in the State.

Discretely Presented Component Units

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

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

Central Falls School District - The Rhode Island General Assembly passed an act which established the Central Falls School District. This act provided for the State to assume administrative responsibility for the School District effective July 1, 1991. Chapter 16-2 of the R.I. General Laws established a seven member Board of Trustees, which governs the School District and has the powers and duties of a School Committee. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls.

For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

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

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 four subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

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

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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

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

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

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

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

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the

State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

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

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

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

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

C. Government-wide and Fund Financial Statements

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

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

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as the taxable events occur (miscellaneous taxes), net of estimated tax refunds.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

The State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

Fiduciary Fund Types:

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

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

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

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:

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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

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

The State reports the following major governmental funds:

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

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

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

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. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund. This fund accounts for the State's unemployment compensation 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.

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

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

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

E. Cash and Cash Equivalents

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

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets.

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience. Within governmental funds, an allowance for unavailable amounts is also reflected.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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 land, non-depreciable intangibles, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Non-depreciable intangibles consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5,000	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

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

The State has recorded its investment in intangible assets which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized by the State. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. Bond discounts, premiums, and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the outstanding principal method.

For Proprietary fund types and component units, bond discounts, premiums, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(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. In addition, in fiscal year 2009, an additional category of leave obligation was established as a result of a pay reduction taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

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

Q. Fund Balances

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

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

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2009, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations.* See Note 6 for more information.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments.*

The State will adopt the following new pronouncements in the fiscal year ending June 30, 2010:

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, effective for the State's fiscal year ending June 30, 2010.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, effective for the State's fiscal year ending June 30, 2010.

The impact on the State's financial statements of the pronouncements to be implemented in the future has not been determined.

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

Primary Government-Governmental and Business Type Activities

Cash

At June 30, 2009, the carrying amount of the State's cash deposits was $158,212,000 and the bank balance was $247,025,000. The bank balances include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

All of the financial institution's holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program which fully guarantees non-interest bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2009 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during fiscal 2009. Financial institutions were required to pledge collateral equal to the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk (expressed in thousands) for deposits at June 30, 2009 within the governmental and business type activities:

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Bank balance	$ 247,025
Bank balance insured by federal depository insurance	110,111
Uninsured balance	136,914
Collateralized – collateral held by third party custodian in the State's name	89,461
Uninsured or collateralized with securities held by the pledging institution or the pledging institution's trust department or agent but not in the State's name	$ 47,453

Investments

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The R.I. Public Rail Corporation, a non-major governmental fund, has $7,537,000 of restricted cash. Of the State's investments equaling $73,424,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $73,247,000.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral, are required to be delivered to an independent third party custodian.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk, by matching the maturities of investments with the requirements for funds disbursement.

The State's investments (expressed in thousands) at June 30, 2009 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 213,755	$ 213,755	$ 0	$ 0	$ 0
Commercial Paper	72,005	72,005	0	0	0
Repurchase Agreements	1,679	1,679	0	0	0
	287,439	$ 287,439	$ 0	$ 0	$ 0

(177)	Investments
(73,247)	Restricted investments
214,015	Cash equivalents
158,214	Cash
$ 372,229	Total cash and cash equivalents

	Statement of Net Assets
$ 351,329	Cash and cash equivalents
20,900	Restricted cash and cash equivalents
$ 372,229	Total cash and cash equivalents

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements and maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2009, information about the State's exposure to credit risk for investments (expressed in thousands) is as follows:

Issuer	Fair Value	S & P Rating	Average Maturities Days
MONEY MARKET			
BlackRock Fed Fund Inst Shares	$ 5,304	AAAm	30
Fidelity FIMM Funds: Gov Port Class I	128,186	AAAm	50
Federated Government Obligation Fund Inst Shares	64,468	AAAm	47
Wells Fargo Advantage Government Money Market Fund	306	AAAm	28
Dreyfus Gov Cash Mgt Fund	14,037	AAAm	51
Goldman Sachs Treasury Investment	1,009	AAAm-G	57
Wells Fargo Advantage 100% Treasury Plus Fund	411	AAAm-G	57
First American Treasury Obl. Class A	34	AAAm	46
COMMERCIAL PAPER			
FCAR Owner Trust	52,493	A-1+	
HSBC Finance Corp	19,512	A-1+	
TOTAL	$ 285,760		

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments including any limitations on credit quality and concentrations of credit risk.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2009 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 117,518	$ 52,618	$ 64,900	$ 0	$ 0
Money Market Mutual Funds	304,388	304,388	0	0	0
Investment Contracts	4,407	4,407	0	0	0
Funds on deposit with fiscal agent	$ 426,313	$ 361,413	$ 64,900	$ 0	$ 0

The above funds on deposit with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	S & P Rating	Average Maturities Days
MONEY MARKET			
Federated Govt Obligation Tax Mgt Fund	$ 38,317	AAAm	46
First American Treasury Obl. Fund	1,611	AAAm	46
J P Morgan US Govt. Money Market Agency Class	2,459	AAAm	49
J P Morgan US Treasury Securities Money Market Fund Agency Class	1	AAAm-G	41
Wells Fargo Advantage 100% Treasury Money Market Fund	5,520	AAAm-G	55
Dreyfus Treasury Prime Cash Mgt Fund	95,485	AAAm-G	51
US Bank Money Market Account	2		
Fidelity Inst MM Funds: Gov Port Class III	160,994	AAAm	50
INVESTMENT CONTRACTS			
FSA Capital Management GIC	4,407		
U.S. GOVERNMENT AGENCIES			
Federal Home Loan Mortgage Corporation	33,066	AAA	
Federal Home Loan Bank	61,515	AAA	
Federal National Mortgage Association	22,937	AAA	
TOTAL	$ 426,313		

During the fiscal year $1,102,000 consisting primarily of income from investments held in the Bond Capital Fund, was transferred to the General Fund for debt service payments.

Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows.

Type	Issuer	Amount	Percentage
Commercial Paper	FCAR Owner Trust	$ 52,493	7.35%
US Government Agencies	Federal Home Loan Bank	61,515	8.62%

Fiduciary Funds

Pension Trusts

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

Cash Deposits and Cash Equivalents

At June 30, 2009, the carrying amount of the ERS cash deposits was $3,305,000 and the bank balance was $3,449,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, the entire amount is covered by federal depository insurance and $2,757,377 is also fully collateralized. The collateralized time deposits are collateralized at a minimum of 102%. Cash equivalent type investments consist of money market mutual funds totaling $6,946. The money market mutual fund (Federated Government Obligations Fund – Institutional Shares) is invested in a portfolio of short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The fund was rated AAAm by Standard & Poors and had an average maturity of 47 days at June 30, 2009.

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, 2009.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the ERS. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the ERS, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts,

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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

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

The following table presents the fair value of investments by type at June 30, 2009 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 14,700
Money Market Mutual Fund	262,263
Foreign Currencies	1,093
U.S. Government Securities	410,780
U.S. Government Agency Securities	542,090
Collateralized Mortgage Obligations	13,276
Corporate Bonds	497,644
Domestic Equity Securities	114,614
International Equity Securities	21,622
Commingled Funds - Domestic Equity	2,241,402
Commingled Funds - International Equity	1,084,260
Private Equity	571,147
Real Estate	
Limited Partnership	123,660
Commingled Funds	100,328
Real Estate Investment Trusts	20,236
	$ 6,019,115
Net investment receivable (payable)	(35,448)
Total	$ 5,983,667

Consistent with an target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined, generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Interest Rate Risk

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2009, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2009 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 410,780	5.78
U.S. Government Agency Securities	542,090	2.71
Collateralized Mortgage Obligations	13,276	1.87
Corporate Bonds	497,644	5.73
Total Fixed Income	$ 1,463,790	4.60

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with an average maturity of 55 days.

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

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities.

The ERS's exposure to credit risk as of June 30, 2009 is as follows (expressed in thousands):

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 7,659	$ 542,090	$ 51,693
Aa	511		19,009
A	673		139,398
Baa	2,879		164,590
Ba	713		48,812
B	63		48,738
Caa			9,341
Ca			2,752
C			880
D			1,248
Not rated	778		11,183
Fair Value	$ 13,276	$ 542,090	$ 497,644

* Moody's Investors Service

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2009 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity

investments at 20%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2009, was as follows:

Currency	Currency	Equities	Private Equity	Total
Canadian Dollar	$ 5	$ 733	$ 14,081	$ 14,819
Euro Currency		4	75,793	75,797
Hong Kong Dollar	42	13,760		13,802
Indonesian Rupiah		460		460
Japanese Yen	1,045	5,721		6,766
Pound Sterling		944		944
South Korean Won	1		543	544
Total	$ 1,093	$ 21,622	$ 90,417	$ 113,132

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $1,084,259,535.

Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indexes.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, securities purchased prior to issuance, and short sales. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments and if there is an illiquid secondary market for the contracts.

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

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities in Note 3(b). These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in Note 3(c) *Interest Rate Risk*.

Mortgage backed securities of U.S. Government Agencies are also bought and sold in the "to be announced" or TBA market, which performs as a forward or delayed delivery market. The ERS will enter into a forward contract to buy (or sell) mortgage backed securities in the TBA market, promising to purchase (or deliver) mortgage backed securities on a settlement date sometime in the future. The actual security that will be dealt to fulfill a TBA trade is not designated at the time the trade is originated.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarize the ERS's exposure to specific derivative investments at June 30, 2009.

Fixed Income Futures

Contract	2009 Expiration	Position	Close Price (local)	Quantity	Multiplier	Notional (Base)
U.S. 2-year Treasury Notes	September	Short	$ 108.109375	48	2,000	$ (10,378,500)
U.S. 10-year Treasury Notes	September	Short	116.265625	31	1,000	(3,604,234)
U.S. 30-year Treasury Bonds	September	Short	118.359375	25	1,000	(2,958,984)
U.S. 5-year Treasury Notes	September	Short	114.718750	48	1,000	(5,506,500)
						$ (22,448,219)

International Equity Index Futures

Contract	2009 Expiration	Close Price (local)	Position	Quantity	Multiplier	FX Rate	Notional (Base)
CAC 40	July	$ 3,136.00	Long	120	10	1.40265	$ 5,278,452
DAX	September	4,819.50	Long	23	25	1.40265	3,887,041
DJ EURO STOXX	September	2,398.00	Long	422	10	1.40265	14,194,201
FTSE 100	September	4,218.00	Long	188	10	1.64685	13,059,257
HANG SENG	July	18,420.00	Long	16	50	0.12903	1,901,407
IBEX 35	July	9,717.00	Long	15	10	1.40265	2,044,433
FTSE MIB	September	19,088.00	Long	14	5	1.40265	1,874,165
TOPIX	September	924.50	Long	156	10,000	0.01036	14,947,601
S&P TSE 60	September	627.10	Long	60	200	0.86107	6,479,700
ASX SPI 200	September	3,901.00	Long	57	25	0.80845	4,494,113
							$ 68,160,370

US Equity Index Futures

Contract	2009 Expiration	Close Price (local)	Position	Quantity	Multiplier	Notional (Base)
Russell 2000 Mini Index	September	$ 507.20	Short	1	100	$ (50,720)
S&p 500 Index	September	915.50	Short	7	250	(1,602,125)
						$ (1,652,845)

Foreign Curreny Forward Contracts

Pending receivable	$ 200,775,743
Pending payable	(200,947,757)
Foreign currency forward contract asset (liability)	$ (172,014)

The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, amounts for the exposure (unrealized gains/losses) on these instruments are recorded. The aggregate gain (loss) of all index futures at June 30, 2009 is ($71,695) which is reflected within the Statements of Changes in Fiduciary Net Assets at June 30, 2009. The aggregate gain (loss) on pending foreign currency forward contracts is ($172,014) which is also included in the Statements of Changes in Fiduciary Net Assets at June 30, 2009.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. During fiscal 2009, the ERS had 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. Effective March 2009, the State Investment Commission withdrew participation in the securities lending program. At June 30, 2009 one security remained on loan with a fair value of $4,162. Collateral received for the security on loan was $16,650 (fair value). At June 30, 2009, no other directly held ERS securities were on loan.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

While participating in the securities lending program, securities on loan were collateralized at 102%. There were no restrictions on the amount of loans that could be made. The contract with the lending agent required them to indemnify the ERS if the borrowers failed to return the securities. Either the ERS or the borrower could terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. The ERS was not permitted to pledge or sell collateral securities received unless the borrower defaulted. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2009, the ERS had indirect exposure to securities lending activity through participation in a commingled fund. The commingled fund participates in a securities lending program administered by a related party of the manager of the commingled fund. During fiscal 2009, the commingled fund manager imposed withdrawal restrictions from the commingled fund due to market conditions which adversely impacted its securities lending collateral pool. The restrictions generally limit withdrawals from the lending fund to no more than 4% of the participant balance per month. The State Investment Commission has authorized withdrawals from the lending commingled fund to be reinvested in a similar non-lending commingled fund consistent with the limitations imposed by the commingled fund manager. The ERS's investment at June 30, 2009 in the commingled fund which participates in securities lending activity was $983,621,923.

Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $1,678,000 in the Fidelity Balanced Fund.

Agency Funds

At June 30, 2009, the carrying amount of the State's cash deposits within the agency funds was $39,927,000 and the bank balance was $16,926,000. The bank balances include demand deposit accounts and interest-bearing deposit accounts. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

All of the financial institution's holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program which fully guarantees non-interest bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible

collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2009 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during fiscal 2009. Financial institutions were required to pledge collateral equal to the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk for deposits at June 30, 2009 within the agency funds (in thousands):

Bank balance	$ 16,926
Bank balance insured by federal depository insurance	10,051
Uninsured balance	6,875
Collateralized-collateral held by third party custodian in State's name	64
Uninsured or collateralized with securities held by the pledging institution or the pledging institution's trust department or agent but not in the State's name	$ 6,811

Investments (classified as cash equivalents) within the agency funds totaled $34,004,000 and consisted of a money market fund – Federated–Government Obligations Fund rated AAAm by Standard and Poors Investors Service with an average maturity of 47 days.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Note 3. Receivables

Receivables at June 30, 2009 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 278,478	$ 247,872	$	$	$ (151,924)	$ 374,426
Intermodal Surface Transportation	11,470			1,000		12,470
Other governmental	51,332	786			(1,901)	50,217
Internal Service		3,600				3,600
Total - governmental activities	$ 341,280	$ 252,258	$	$ 1,000	$ (153,825)	$ 440,713
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 8,645	$ 7,206				
Business-type activities:						
State Lottery	$	$ 4,826	$	$	$ (134)	$ 4,692
Convention Center		1,594			(480)	1,114
Employment Security	58,574	11,146			(11,259)	58,461
Total - business-type activities	$ 58,574	$ 17,566	$	$	$ (11,873)	$ 64,267
Component Units	$	$ 101,455	$ 7,624	$ 3,619,295	$ (96,638)	$ 3,631,736

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.

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2009, are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General	$ 2,183	$
Intermodal Surface Transportation	12,714	
GARVEE		573
Other		
Coastal Resources Management Council Dredge		2
RI Temporary Disability Insurance		1,080
RI Public Rail Corporation		7,537
Bond Capital		6,964
RI Capital Plan	1,671	
Certificates of Participation	16	
Permanent School		10
Total Other	1,687	15,593
Total Governmental	16,584	16,166
Proprietary Funds		
Enterprise		
RI Lottery	10	1,700
Employment Security Trust	603	
Total Enterprise	613	1,700
Internal Service		
Assessed Fringe Benefits		371
Central Utilities		1,026
Central Mail	10	
State Telecommunications	971	
Central Pharmacy		24
Central Laundry	265	
Automotive Maintenance		61
Central Warehouse		27
Correctional Industries	105	
Records Center		10
Health Insurance Active	183	
Health Insurance Retiree-State		475
Health Insurance Retiree-Teachers	605	
Vehicle Replacement Revolving Loan	379	
Capitol Police	145	
Total Internal Service	2,663	1,994
Totals	$ 19,860	$ 19,860

In addition, at June 30, 2009 the Employer Pension Contribution Fund (an Agency Fund) had $60,385,553 classified as deposits held for others, representing employer and employee retirement contributions deposited in the fund pursuant to law. This amount was paid to the Employees' Retirement System in July 2009.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 342,307	$ 2,237	$ (102)	$ 344,442
Works of Art	239	75		314
Intangibles	136,510	8,670		145,180
Construction in progress *	834,460	175,690	(515,900)	494,250
Total capital assets not being depreciated	1,313,516	186,672	(516,002)	984,186
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	517,249	62,170	(1,596)	577,823
Building Improvements	208,342			208,342
Furniture and equipment	224,926	7,922	(2,290)	230,558
Intangibles	8,428			8,428
Infrastructure	2,064,005	453,882	(8,158)	2,509,729
Total capital assets being depreciated	3,026,650	523,974	(12,044)	3,538,580
Less accumulated depreciation for:				
Land improvements	2,892	185		3,077
Buildings	185,926	18,790	(1,247)	203,469
Building Improvements	126,361			126,361
Furniture and equipment	172,018	18,195	(1,941)	188,272
Intangibles	3,231	1,552		4,783
Infrastructure	1,065,712	75,564		1,141,276
Total accumulated depreciation	1,556,140	114,286	(3,188)	1,667,238
Total capital assets being depreciated, net	1,470,510	409,688	(8,856)	1,871,342
Governmental activities capital assets, net	$ 2,784,026	$ 596,360	$ (524,858)	$ 2,855,528

* Beginning balances have been restated, see Note 18, Section C.

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

General government	$ 8,566
Human services	7,418
Education	2,869
Public safety	11,892
Natural resources	3,671
Transportation	79,870
Total depreciation expense - governmental activities	$ 114,286

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	1,567	7,020	(8,175)	412
Total capital assets not being depreciated	47,125	7,020	(8,175)	45,970
Capital assets being depreciated:				
Buildings *	227,079	5,968		233,047
Machinery and equipment *	19,619	2,942	(154)	22,407
Total capital assets being depreciated	246,698	8,910	(154)	255,454
Less accumulated depreciation	85,228	11,062	(148)	96,142
Total capital assets being depreciated, net	161,470	(2,152)	(6)	159,312
Business-type activities capital assets, net	$ 208,595	$ 4,868	$ (8,181)	$ 205,282

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 102,361	$ 6,171	$ (750)	$ 107,782
Construction in progress	527,125	201,803	(167,164)	561,764
Other		250		250
Total capital assets not being depreciated	629,486	208,224	(167,914)	669,796
Capital assets being depreciated:				
Buildings	1,344,008	149,020	(515)	1,492,513
Land improvements	166,587	11,943		178,530
Machinery and equipment	295,170	18,882	(10,181)	303,871
Intangibles	4,100			4,100
Infrastructure	367,243	7,951		375,194
Total capital assets being depreciated	2,177,108	187,796	(10,696)	2,354,208
Less accumulated depreciation for:				
Buildings *	507,026	48,317	(4,656)	550,687
Land improvements	95,140	7,269		102,409
Machinery and equipment	184,641	16,866	(5,345)	196,162
Intangibles	615	820		1,435
Infrastructure *	86,134	7,745		93,879
Total accumulated depreciation	873,556	81,017	(10,001)	944,572
Total capital assets being depreciated, net	1,303,552	106,779	(695)	1,409,636
Total capital assets, net	$ 1,933,038	$ 315,003	$ (168,609)	$ 2,079,432

* Certain beginning balances have been restated, due to asset category reclassifications.

The State has considered the impact of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and has determined its impact on reported capital asset amounts to be immaterial.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Note 6. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2009, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities Principal	Governmental Activities Interest	Business Type Activities Principal	Business Type Activities Interest	Component Units Principal	Component Units Interest
2010	$ 114,729	$ 121,104	$ 7,530	$ 14,853	$ 163,163	$ 150,951
2011	110,860	116,435	8,660	14,470	107,505	147,044
2012	125,405	111,278	9,110	14,030	102,809	142,706
2013	135,865	105,001	9,570	13,565	123,723	138,140
2014	131,930	98,638	10,060	13,075	112,489	133,120
2015 - 2019	636,690	395,391	58,365	56,993	624,457	587,561
2020 - 2024	423,485	254,708	74,745	40,438	643,164	434,444
2025 - 2029	107,290	177,693	63,875	18,943	572,840	293,340
2030 - 2034	168,260	141,921	27,385	7,147	575,985	178,644
2035 - 2039		116,156	6,510	395	688,870	80,105
2040 - 2044	371,700	69,694			170,830	26,220
2045 - 2049					148,045	8,077
2050 - 2054	197,006	2,834,180 *			880	24
	$ 2,523,220	$ 4,542,199	$ 275,810	$ 193,909	$ 4,034,760	$ 2,320,376

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government

Governmental Activities

Current interest bonds of the State are serial bonds with interest payable semi-annually. Additionally, the Tobacco Settlement Financing Corporation (a blended component unit) has issued capital appreciation bonds.

In December 2008, the State issued $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D, with interest rates ranging from 3.00% to 5.25%, maturing from 2011 through 2018. The proceeds were used to effect a current refunding of the $12,565,000 Variable Rate Multi-Modal Series 2000B. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. Assuming an interest rate of 4.000% on the refunded bonds, the refunding decreases related debt service payments by approximately $2,220,000. Since this was a conversion of variable rate debt to fixed rate there was no economic gain/(loss).

Also, in December 2008, the State issued $86,875,000 Consolidated Capital Development Loan of 2008, Series B, with interest rates ranging from 3.00% to 6.00%, maturing from

2010 through 2024 and $8,500,000 Capital Development Loan of 2008, Series C, with interest rates ranging from 5.17% to 6.66%, maturing from 2010 through 2014. The Series C bonds are federally taxable.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

In addition, in FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the Bonds are being used to provide funds for redemption of Historic Structures Tax Credits redeemed in FY2009 and the following two fiscal years.

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

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. The TSFC 2007 bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2009, TSFC utilized $21,100,000 of excess collections to early redeem an equal amount of outstanding bonds.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

At June 30, 2009, general obligation bonds authorized by the voters and unissued amounted to $269,400,000. 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.

Business Type Activities

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2009, outstanding bond and note indebtedness totaled $276,840,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

During March 2009, RICCA issued Refunding Revenue Bonds 2009 Series A, in an aggregate principal amount of $70,735,000 for the purpose of (i) redeeming the outstanding $59,210,000, 2001 Series A Bonds, (ii) financing the payment to UBSAG in termination of the Swap Agreement, (iii) purchasing debt service reserve insurance and bond insurance under a financial guaranty policy, and (iv) paying the costs of issuance. The bonds mature between 2011 and 2027 and bear interest at rates ranging from 3.00% to 5.50%. Additionally, during March 2009, RICCA issued Refunding Revenue Bonds, 2009 Series B (federally taxable), in an aggregate principal amount of $485,000 for the purpose of (i) purchasing debt service reserve insurance and (ii) paying the costs of issuance. The bonds mature in 2014 and bear interest at 7.49%.

Concurrent with the issuance of the 2009 Series A Bonds, a financial insurance policy was issued by Assured Guaranty Corp (AGC). The policy provides maximum coverage for principal and interest payments on the 2009 Series A Bonds of $127,472,366. Coverage under the policy expires on May 15, 2027. In August 2009, AGC was rated by Moody's, S&P, and Fitch as A2, A and AA, respectively.

Simultaneous with the issuance of the 2009 Series A and Series B Bonds (2009 Series Bonds), a Debt Service Reserve Fund Facility was issues by Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides a maximum coverage of $16,230,945. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2009 Series Bonds are no longer outstanding. FSA was rated by Moody's as A3 on July 24, 2009, as A on August 26, 2009, and Fitch as AA on August 10, 2009.

In March 2009, utilizing the proceeds of the 2009 Refunding Revenue Bonds, RICCA insubstance defeased $59,210,000 of its 2001 Series A Refunding Revenue Bonds. The bonds were subsequently called and retired during May 2009. Thus, there were no amounts outstanding from this issue as of June 30, 2009.

Concurrent with the issuance of its 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. The 2001 Series A bonds bore interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent. In addition, the RICCA had the right to convert these bonds to fixed rate bonds. The bonds initially bore interest at the weekly rate as determined by UBS and were payable in monthly installments. Total interest paid to the bondholders for the year ended June 30, 2009 was $2,461,033.

Under the terms of the Swap Agreement, the RICCA agreed to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agreed to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contained a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG had 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 did not require the consent of the RICCA and no fees, payments or other amounts were payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the year ended June 30, 2009 under the Swap Agreement was $1,161,700. Total interest received by the RICCA from UBSAG for the years ended June 30, 2009 under the Swap Agreement was $780,987.

In March 2009, concurrent with the refunding of the 2001 Series A Bonds, the Swap Agreement was terminated for a fee of $7,980,000. This loss has been deferred and is being

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

amortized as a component of interest expense over eighteen years using the effective interest method.

Additionally, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia) in conjunction with the issuance of the 2001 Refunding Bonds. Under the terms of the standby bond purchase agreement, Dexia agreed to purchase bonds from the RICCA that bore interest at variable rates. The purchase price would not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. During FY09, substantially all of the outstanding 2001 Series A Refunding Revenue Bonds were tendered to Dexia pursuant to the standby bond purchase agreement. RICCA was obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. The standby bond purchase agreement was terminated in May 2009 upon retirement of the 2001 Series A Bonds.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Operating Reserve, Debt Service Reserve and Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during Fiscal 2009.

Component Units

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

In November 2008, the University of Rhode Island (URI) issued $34,105,000 of Series 2008 A Rhode Island Educational and General Revenue Issue. These bonds were used to refund the $33,000,000 outstanding from Series 2004 B Bonds. The proceeds from the issuance were deposited into the Series 2004 B Redemption Account and were used to pay principal and interest on the Series 2004 B bonds through their redemption date, at a price of 100%. URI also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue Series 2008 B, par amount of $3,830,000 to pay expenses relating to the 2004 B swap termination. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,105,000. This difference, reported in the accompanying financial statements as an increase in bonds payable and is being amortized through the year

2034. There was an economic gain (difference between the present value of the old and new debt service payments) of approximately $2,617,133.

On June 18, 2009, the Rhode Island Health and Education Building Corporation (RIHEBC) issued the University of Rhode Island Educational and General Revenue Issue, Series 2009 A with a par amount of $10,315,000. The proceeds of the Series 2009 A Bonds will be used to finance site and utility infrastructure relating to the "North District" of the Kingston Campus. RIHEBC also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2009 B with a par amount of $18,205,000. The proceeds of the Series 2009 B Bonds will be used to finance fire protection and life safety improvements.

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).

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC), has pledged net revenues derived from the operation by RIAC of the Airport and Certain Outlying Airports to repay $278,975,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately $33,578,000 and $36,492,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Principal and interest payments for the years ended June 30, 2009 and June 30, 2008 were approximately $21,703,000 and $18,819,000, respectively.

RIAC has pledged facility revenues related to the intermodal facility, net of specified operating expenses, to repay $48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds are being used for the construction of the intermodal facility. Facility revenues, including customer facility charges, were $5,194,000 and $6,211,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Interest paid for the years ended June 30, 2009 and June 30, 2008 were approximately $2,418,000 for each year. Principal payments commence on July 1, 2011.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2009, RIAC had $83,000 in borrowings under this agreement.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued $66,360,000 in Wastewater System Revenue Refunding Bonds to refund on a current basis, $65,765,000 of the outstanding Wastewater System Revenue Bonds, 2004 Series A and to pay the costs of issuance associated therewith. The reacquisition price exceeded the net carrying amount of the old debt by $627,767. This amount is being netted against the new debt and amortized over the new debt's life.

The Bonds were issued under a Trust Indenture dated as of April 15, 2004 between NBC and Wells Fargo Bank, N.A., as Trustee and a Ninth Supplemental Indenture dated as of July 1, 2008 between NBC and the Trustee.

These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2009 ranged from .25% to 6.5%. The Bonds shall be repaid from Revenues, as defined in the Indenture of the Commission pledged under the Indenture and funds drawn under an irrevocable direct pay letter of credit issued by RBS Citizens National Association. Under the Letter of Credit, the Bank is obligated to pay to the Trustee, upon presentation of required documentation, the amount necessary to pay the principal and purchase price of and interest on the Bonds of up to 60 days at the maximum rate of 10% on the Bonds. The Letter of Credit provides that it will expire on July 16, 2010.

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 $20,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. At June 30, 2009 RIIRBA had no outstanding commitments. (See Note 18B).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2009 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,775
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	33,065
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.	5,030
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	2,731
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	619
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	625
	43,845
Less: current payable	(40,101)
	$ 3,744

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 $271,381,000.

D. Obligations Under Capital Leases

Primary Government

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

The State's obligation under capital leases at June 30, 2009 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.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

In June 2009, the State entered into the following capital leases.

$12,380,000 Series 2009A, Information Technology Project, with maturities from FY2010 to FY2016 and interest rates between 2.000% and 4.000%

$11,805,000 Series 2009B, Energy Conservation Project, with maturities from FY2010 to FY2019 and interest rates between 2.000% and 4.625%

$30,425,000 Series 2009C, School for the Deaf Project, with maturities from FY2010 to FY2029 and interest rates between 2.000% and 5.625%

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, 2009.

Fiscal Year Ending June 30	COPS
2010	$ 35,931
2011	31,774
2012	30,525
2013	29,465
2014	27,827
2015 - 2019	113,557
2020 - 2024	76,107
2025 - 2029	18,304
Total future minimum lease payments	363,490
Amount representing interest	(94,150)
Present value of future minimum lease payments	$ 269,340

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. Additionally, in FY 2009, the State deferred payment of certain compensation to employees. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

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

F. Other Long-Term Liabilities

Items in this category principally include, but are not limited to:

- Special obligation notes payable to the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives.

- The State's liability for 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 issuance date of the bonds.

- Refunds payable related to tax carry-forward credits for taxpayers not expected to be paid in the subsequent fiscal period.

- The State's liability to the R.I. Economic Development Corporation (RIEDC) relating to $14,280,000 of financing obtained by the RIEDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of the RIEDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR rate. To obtain a fixed rate on the obligation, the RIEDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay RIEDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. The RIEDC's note payable is secured by an assignment of a payment agreement between the State and RIEDC reflecting legislative approval of the RIEDC executing this debt and the State's obligation to appropriate to RIEDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to the RIEDC through FY 2010 to pay the debt service on the loan.

- The liability for the expected payment to be made to settle the Station fire litigation as more fully discussed in Note 12.

- The ISTEA and GARVEE fund liabilities consist primarily of retainage related infrastructure construction projects. These amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, certain other long-term payables are included in this category.

- The liability for pollution remediation as more fully discussed below.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Pollution Remediation Liabilities

GASB Statement No. 49 establishes the guidance reporting entities are to use in estimating and reporting potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the State to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action.
- The State is in violation of a pollution related permit or license.
- The State is named or has evidence it will be named as a responsible party by a regulator.
- The State is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The State commences or legally obligates itself to conduct remediation activities.

The State has remediation activities underway and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within state government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2009, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	$ 997,079	$ 107,820	$ (68,710)	$ 1,036,189	$ 63,494	$ 972,695
Capital appreciation bonds	9		(9)			
Accreted interest on capital appreciation bonds	310		(310)			
Premium and deferred amount on refunding	31,121	1,011	(3,637)	28,495		28,495
	1,028,519	108,831	(72,666)	1,064,684	63,494	1,001,190
RIEDC Grant Anticipation Bonds	285,505	169,395	(27,475)	427,425	26,910	400,515
Premium	17,236	6,786	(3,235)	20,787		20,787
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	72,560	12,410	(3,845)	81,125	3,480	77,645
Premium	1,377	204	(121)	1,460		1,460
Revenue bonds - RIRBA	24,235		(18,195)	6,040	6,040	
Net premium/discount and deferred amount on refunding	(286)		197	(89)		(89)
Tobacco Settlement Asset-Backed Bonds	843,541		(21,100)	822,441		822,441
Accreted interest on TSFC bonds	11,153	12,724		23,877		23,877
Net premium/discount	(26,329)		1,365	(24,964)		(24,964)
Historic Tax Credit Bonds		150,000		150,000	14,805	135,195
Bonds payable	2,257,511	460,350	(145,075)	2,572,786	114,729	2,458,057
Certificates of Participation (COP)	236,060	54,610	(21,330)	269,340	24,535	244,805
Net premium/discount	6,101	35	(783)	5,353		5,353
Obligations under capital leases	242,161	54,645	(22,113)	274,693	24,535	250,158
Compensated absences	67,436	57,024	(62,456)	62,004	58,480	3,524
Net OPEB Obligation	16,112	4,613		20,725		20,725
Notes Payable	2,276		(2,276)			
Other long-term liabilities						
Special obligation notes	18,152		(4,973)	13,179	4,729	8,450
Arbitrage rebate	6,167		(2,769)	3,398		3,398
Tax refunds payable	17,905			17,905		17,905
Masonic Temple Tax Credit	9,775		(4,745)	5,030	5,030	
Station Fire Settlement	10,000			10,000	10,000	
Other General Fund liabilities	2,248		(1,077)	1,171		1,171
ISTEA Fund liabilities	17,844		(2,387)	15,457		15,457
GARVEE Fund liabilities	908	937		1,845		1,845
Pollution Remediation	11,201	5,930		17,131	1,786	15,345
Other	140		(68)	72	51	21
Other long-term liabilities	94,340	6,867	(16,019)	85,188	21,596	63,592
	$ 2,679,836	$ 583,499	$ (247,939)	$ 3,015,396	$ 219,340	$ 2,796,056
Business type activities						
Revenue bonds	$ 270,960	$ 71,220	$ (66,370)	$ 275,810	$ 7,530	$ 268,280
Add: bond premium	3,905		(356)	3,549		3,549
Less: issuance discounts	(633)	(1,945)	241	(2,337)		(2,337)
Deferred amounts on refunding	(5,907)	(11,031)	3,620	(13,318)		(13,318)
Bonds payable	268,325	58,244	(62,865)	263,704	7,530	256,174
Other long-term liabilities	1,171		(141)	1,030	235	795
	$ 269,496	$ 58,244	$ (63,006)	$ 264,734	$ 7,765	$ 256,969

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2009, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 194,899
Certificates of Participation	20,045
R.I. Convention Center Authority	33,375
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	264,955
R.I. Economic Development Corporation	61,320
R.I. Turnpike and Bridge Authority	32,300

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, 2009 was $102,000,000, $2,600,179,582 and $1,169,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

J. Short term borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
General Obligation Tax Anticipation Notes	$ 0	$ 350,000	$ 350,000	$ 0
RI Temporary Disability Insurance Fund	0	25,000	25,000	0
RI Capital Plan Fund	63,721	83,500	45,273	101,948
Total Short Term Borrowing	$ 63,721	$ 458,500	$ 420,273	$ 101,948

All of the borrowings were used to provide short term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $37,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from .48875% to 2.06813%.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $420,215,000 of restricted net assets, of which $199,485,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Unrestricted Net Assets

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

	Governmental Activities
Deficit	$ (1,574,795)
General Revenue	
Appropriations carried forward	998
Internal Service Funds	30,099
Unrestricted Net Assets	$ (1,543,698)

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,635,680,000 of such debt, which contributes to the above deficit.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 102,869	$ 66,094	$ (88,818)	$ 80,145
Appropriations carried forward				
General revenue	1,739	998	(1,739)	998
Departmental restricted revenue	42,413	49,543	(42,413)	49,543
Other	2,584	1,559	(2,584)	1,559
Total	$ 149,605	$ 118,194	$ (135,554)	$ 132,245

The State maintains a State Budget Reserve and Cash Stabilization Account in the general fund. For fiscal year 2009, 2.20% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3.40% of the total general revenues and opening surplus are transferred to the R.I. Capital Plan Fund to be used for capital projects. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly. In fiscal year 2009 the reductions from the State Budget Reserve and Cash Stabilization Account included an appropriation of $22,000,000.

Note 8. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 897,305	$ 898,002
General Business Taxes:		
Business Corporations	103,181	103,104
Public Utilities Gross Earnings	126,665	126,309
Financial Institutions	2,372	2,544
Insurance Companies	65,741	65,674
Bank Deposits	1,803	1,801
Health Care Provider Assessment	46,030	44,339
Sub-total - General Business Taxes	345,792	343,771
Sales and Use Taxes:		
Sales and Use	807,947	808,166
Motor Vehicle	47,926	47,922
Motor Fuel	1,325	1,296
Cigarettes	130,503	130,464
Alcoholic	10,812	10,812
Sub-total - Sales and Use Taxes	998,513	998,660
Other Taxes:		
Inheritance and Gift	28,097	27,940
Racing and Athletics	2,451	2,451
Realty Transfer	6,811	6,811
Sub-total - Other Taxes	37,359	37,202
Total - General Fund	2,278,969	2,277,635
Intermodal Surface Transportation Fund		
Gasoline	129,831	129,831
Other Governmental Funds	180,951	180,951
Total Taxes	$ 2,589,751	$ 2,588,417

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2009 are presented below (expressed in thousands):

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 49,642	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,287	Administrative cost reimbursement
Historic Tax Credit	59,727	Reimbursement for tax credits claimed
RI Public Rail Corporation	37	Interest earnings transfer
Bond Capital	1,278	Interest earnings transfer
RI Capital Plan	2	Transfer of remaining appropriations to RICAP Fund
RI Refunding Bond Authority	5	Current year excess income
Business-Type Activities		
Lottery	337,515	Net income transfer
Employment Security	1,485	Administrative cost reimbursement
Internal Service		
Assessed Fringe Benefits	100	Charges for Information Technology Services
Central Mail	112	Charges for Information Technology Services
State Telecommunications	84	Charges for Information Technology Services
Automotive Maintenance	301	Charges for Information Technology Services
ISTEA		
Bond Capital	40,937	Infrastructure funding
GARVEE		
Intermodal Surface Transportation	52,302	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	66,818	Transfer statutory excess in budget reserve
Bond Capital	30	RICAP residual balance
Historic Tax Credit		
General	3,773	Application fees for tax credits
Permanent School		
Lottery	6,777	Support of education
Total Governmental Activities	622,212	
Business-Type Activities		
Convention Center		
General	28,513	Debt service
Employment Security		
Assessed Fringe Benefits	1,856	Reimbursement for State employee's unemployment compensation
Total operating transfers	$ 652,581	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $12,081,000 for the fiscal year ended June 30, 2009.

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, 2009:

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Fiscal Year Ending June 30	
2010	$ 11,388
2011	10,105
2012	8,277
2013	7,146
2014	6,973
2015 - 2019	17,802
Total	$ 61,691

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2009 are listed below (expressed in thousands).

Major funds	
General	$ 8,651
ISTEA	294,749
GARVEE	225,264
Total major funds	528,664
Other governmental funds	13,617
Total encumbrances outstanding	$ 542,281

The primary government is committed at June 30, 2009 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2009 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 the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2009 $3,560,000 was paid to the developer.

The Lottery in May 2003 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.

As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider.

Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

The contract mandates commission percentages as detailed in the following chart.

Commission Percentages	
On-Line and Instant Tickets	
Total Lottery Sales in the Year	Percent Thereof
$0 - $275 Million	5.00%
Over $275 Million - $400 Million	1.00%
Over $400 Million	5.00%
Video Lottery Central System	
Total Net Terminal Income for the Year	Percent Thereof
$0 - $500 Million	2.50%
Over $500 Million - $1 Billion	1.00%
Over $1 Billion	2.50%

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than $125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

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

Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $12,340,000 which is expected to be funded from current available resources and future operations. As of June 30, 2009, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $141,922,000.

Narragansett Bay Commission

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately $19,720,000 at June 30, 2009.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, the Corporation reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during fiscal year 2012. In 2005, the Corporation began landfilling in Phase V. The Corporation has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phases IV and V. The total estimated current cost of future landfill closure and post-closure care costs totaled approximately $92,035,000 as of June 30, 2009.

A liability for closure and post-closure care as of June 30, 2009 of $71,161,699 has been recorded in the accompanying statements of net assets, as noted below, with approximately $20,873,000 in additional costs to be recognized in future years.

	June 30, 2009
Phase I	$ 22,166,547
Phase II and III	5,896,391
Phase IV	12,208,054
Phase V	30,890,707
	$ 71,161,699

The Corporation expects to record an estimated additional $78,000,000 of closure and post-closure care costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

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

Included in restricted assets held in trust in the accompanying statements of net assets as of June 30, 2009 is $40,118,931 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

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

Superfund site:

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The following is a summary of the activity in the trust fund for the year ended June 30, 2009 which includes additional amounts to meet the financial requirements of post-closure care related to Phase I of the landfill:

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

	Year ended June 30, 2009
Fair value, beginning of period	$ 40,279,407
Earnings	856,748
Change in market value	(60,919)
Disbursements for remediation expenses trustee management fees	(136,752)
Fair value, end of period	$ 40,938,484

A fiduciary fund is a fund used to report assets held in a trustee or agency capacity for others, and consequently, such assets cannot be used to support a government's own programs. The trust fund established pursuant to the Consent Decree was established to accumulate and hold in trust resources to be used by the Corporation to fund the Corporation's remedial actions. Accordingly, the trust fund has not been reported as a separate fiduciary fund in the accompanying basic financial statements; instead, assets held in trust have been included in restricted assets held in trust in the accompanying statements of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately $18,817,000 as of June 30, 2009.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for development. The Corporation is obligated to remediate one of these parcels. During fiscal year 2008, the Corporation recorded a liability for the estimated cost for remediation in the amount of $1,000,000, which is included as a liability as of June 30, 2009.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the Corporation. As of June 30, 2009 the escrow account totaled approximately $156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase

I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The cost of these projects totaled approximately $6,328,000 through June 30, 2009. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

A wetland alteration application was submitted to RIDEM in July 2001. The alteration application entailed relocating the second phase of Cedar Swamp Brook, completing its separation from Sedimentation Pond 2, to the south of the landfill Phase V. Phase II of the relocation of Cedar Swamp Brook began in August 2002. The Corporation has incurred approximately $8,760,000 of engineering and subcontracting costs for this project through June 30, 2009. The project was substantially complete as of June 30, 2007 and is awaiting RIDEM approval.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2009 remaining commitments on these contracts approximated $4,170,000.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $34,545,047 at June 30, 2009.

R.I. Higher Education Assistance Authority

Under an agreement with AllianceBernstein L.P., the R.I. Higher Education Assistance Authority (RIHEAA) receives account maintenance, direct commission and other fees derived principally from non-Rhode Island participants in CollegeBound*fund*®, Rhode Island's IRS section 529 college savings program. During FY 2009, these revenues totaled approximately $6,500,000.. In addition, RIHEAA receives $250,000 annually (in quarterly installments) directly from AllianceBernstein. During FY 2002, RIHEAA established two scholarship and grant programs which are funded with the revenues generated from CollegeBound*fund*®. Those programs are:

The Academic Promise Scholarship Program: approximately $1,000,000 is available annually through RIHEAA for the benefit of 100 academic and income-qualified students to provide up to $10,000 to each student over a four-year scholarship period.
The CollegeBound*fund*® Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA in CollegeBound*fund*® as matching contribution accounts for individuals' accounts established for the benefit of income-qualifying students and their families..

During FY 2009, RIHEAA provided $2,675,000 to be used for Academic Promise Scholarship Program recipients. In addition, RIHEAA provided over $3,800,000 in supplemental funding for the State Scholarship/Grant Program.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Note 12. Contingencies

Primary Government

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.

Litigation was initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a settlement for $10,000,000; payment is expected to be made in the near future. A liability has been accrued in the State's financial statements as of June 30, 2009 for this settlement.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor hired by the contractor to, among other things, drill and install twenty-one shafts to allow for the placement and construction of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase, no trial date has been set and management cannot estimate the likelihood of loss to the State, if any.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties have appealed to the Board of Regents and their appeals are currently pending. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department of Education will be submitting a reply brief in this matter.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by

the City of Providence at the time that housing aid was being calculated. The City of Providence requested a hearing and disputes the findings of the Department. Based on settlement discussions with the City of Providence, the amount due is $9,450,266. The General Assembly enacted legislation in the 2009 session (G.L. 16-7-44.2) that calls for the repayment to be spread over a number of years calculated by dividing the total amount of the overpayment by the total amount of revenues and deducted the calculated amount from Providence's FY 2009 general education aid. The calculation results in Providence's overpayment being spread over 7 years, or $1,350,038 per year. This reduction will continue through FY 2015.

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

In November 2004, a labor arbitrator ordered payment to deputy sheriffs for missed overtime opportunities. The state appealed and the Superior Court vacated the arbitration award. The union appealed that ruling and the Supreme Court re-instated the arbitration award. The arbitrator then ruled that the number of hours of missed overtime to be reimbursed to union members may be as much as 12,000 hours. The parties disagree about the number of deputies who are eligible to share in the payments and that issue is still pending before the arbitrator. The union has presented the testimony of approximately 90 deputies who claim to have been qualified to work the overtime at issue. The employer believes that about a third of those actually were qualified. However, the arbitrator has not yet ruled on who is entitled to share in the remedy, and he may take a more expansive view of qualifications, in which case more deputies will share in the payment. It is not possible to estimate the state's exposure until the arbitrator rules on the number of deputies to be paid. After that, the calculations are complicated because the period of time for which each deputy will be paid is different, and each one had different overtime rates of pay at different times within their remedy periods.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Tobacco Settlement Financing Corporation

In 2005 and 2006, several states sued Participating Manufacturers (PM's) in their state courts seeking orders that the states diligently enforced the Master Settlement Agreement (MSA) and related statutes. All of the state courts denied the states' actions and ordered those states to arbitrate the 2003 Non-Participating Manufacturers (NPMs) Adjustment, including whether the state diligently enforced the MSA and related statutes.

Although Rhode Island did not sue the PM's, in 2006, the PM's filed a Motion to Compel the State to Arbitrate the 2003 NPM Adjustment in Rhode Island Superior Court, which the State opposed. In 2007, the Court granted the Motion to Compel Arbitration, which the State moved for reconsideration. The Court denied the State's Motion to Reconsider. The State appealed the Court's orders. In 2008, the Supreme Court of Rhode Island remanded the case for the Superior Court to rule on a Motion for a Stay. The Superior Court denied the stay and the case was returned to the Supreme Court of Rhode Island. During the appeal, the PM's and Rhode Island entered into an agreement, whereby Rhode Island would join nationwide arbitration and the PM's would release funds from the disputed account attributable to the 2005 NPM Adjustment and an automatic reduction by 10% in the event that the PMs prevail. Rhode Island received $3,866,925 on February 26, 2009, which flowed to the TSFC.

The arbitration of the 2003 NPM Adjustment dispute has commenced. To date the Participating Manufactures and the States have selected arbitrators who are developing lists for the selection of the third neutral arbitrator. The arbitration of the 2003 NPM Adjustment is expected to last into FY 2011.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several 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. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These Participating Manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for Non-Participating Manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions permitted by the MSA to arrive at a resolution of these matters.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and was not extended.

In June 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island. The filing was made when – after months of discussions and negotiations - the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which plan is subject to approval of the Bankruptcy Court. The consensual plan contemplates, among other things, that the lenders will remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders shall become the new owners of the facility and search for a new operator for the facility to replace the Debtors. The State is represented in the bankruptcy proceedings by outside legal counsel. Progress has been made toward a successful restructuring of the companies. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual.

In January 2010 the debtors filed their Second Amended Disclosure Statement and Second Amended Plan with respect to the reorganization, which has the support of the key stakeholders. The debtors have already received approval of their Second Amended Disclosure Statement. In addition, the debtors have been granted the authority to begin soliciting votes on the Second Amended Plan. Although the plan provides for the State to make additional investments in the marketing and management for the facility, it is not anticipated that the bankruptcy will have a significant impact on the lottery revenues the State expects to continue to receive from the facility. The lenders and/or debtors intend to have legislation introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

The Department of Revenue, Division of Lotteries, and the Department of Business Regulation continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility would need regulatory approval. Certain applications for licensure have been submitted by the lenders to the Department of Business Regulation and these applications are currently under review. It should also be noted that the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2008 was issued in June 2009. That report identified approximately $14.2 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies and in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2009 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in 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, 2009 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $285,257,986 and $39,907,829 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately $3,201,500 of the debt on the related economic development revenue bonds in fiscal year 2010.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority maintains Letters of Credit in the original stated amount of $104,888,356 on its November 2008 Series B Weekly Adjustable Interest Rate Bonds and the original stated amount of $104,888,356 on its August 2008 Series C-1, C-2 and C-3 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 as contemplated by the indenture.

The Letters of Credit will expire on the earliest to occur: (a) June 30, 2012, for the August 2008 and November 2008 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, (f) when no amount becomes available to the Trustee under the Letter of Credit.

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, 2009.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate plus 1.5% for the fiscal year ended June 30, 2009. There was an outstanding balance of $310,000 as of June 30, 2009.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2009, the Corporation may borrow up to a maximum of $30,000,000 under one revolving loan agreement expiring in October 2009 and up to a maximum of $19,500,000 under an additional revolving loan agreement expiring in May 2011. At June 30, 2009 $37 million was outstanding under these revolving loan agreements.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court. The court rendered a decision on June 29, 2009, partially vacating the original arbitration award and a final court order is pending. The Community College believes that the judgment will be

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

appealed. In the interim, the Community College has maintained a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.
Short-term investments are generally carried at cost which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds as well as a commingled fund which holds fixed income securities and domestic equity index futures with the objective of outperforming the S&P 500 index by 75 basis points. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements,* requires private equity and real estate limited partnership general partners to value nonpublibly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 9.5% and 4.1%, respectively of the total reported fair value of all ERS investments at June 30, 2009. Of the underlying holdings within private equity investments, approximately 6% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	21.64%	26.03%	24.06%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.75% and 8.18%		
Annual pension cost	$199,898	$3,341	$1,700
Contributions made - state employees	$126,298	$3,341	$1,700
Contributions made - teachers	$73,600		
Actuarial valuation date	June 30, 2006	June 30, 2006	June 30, 2006
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	23 years	23 years	23 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3.0%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/07	188,832	100%	$ 0
	6/30/08	214,016	100%	0
	6/30/09	199,898	100%	0
State Police Retirement Benefits Trust	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
	6/30/09	3,341	100%	0
Judicial Retirement Benefits Trust	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0
	6/30/09	1,700	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2008, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$2,700,368,568	$4,371,829,709	$1,671,461,141	61.80%	$587,500,000	284.50%
Teachers	$4,044,954,378	$6,705,498,005	$2,660,543,627	60.30%	$985,898,174	269.90%
SPRBT	$54,927,390	$69,029,513	$14,102,123	79.60%	$16,698,764	84.50%
JRBT	$34,670,394	$42,455,456	$7,785,062	81.70%	$6,601,889	117.90%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits. Additional information as of the June 30, 2008 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	21 years	21 years	21 years	21 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members eligible at 9/30/09 - 3.0% compounded members not eligible at 9/30/09 – 2.5% compounded Schedule B members – 2.5% compounded	Schedule A members eligible at 9/30/09 - 3.0% compounded members not eligible at 9/30/09 – 2.5% compounded Schedule B members – 2.5% compounded	$1,500 per annum	3.0% see Note1(b) to the Employees' Retirement System financial statements

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

Note 1 – Cost of Living Adjustments (COLA) are based on the actual Consumer Price Index or 3%, whichever is lower. For actuarial purposes, the actuary assumes a 2.5% COLA increase.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $14,471,000 during the year ended June 30, 2009.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2009 totaled $7,238,060. At January 1, 2009, the most recent valuation date, the total actuarial accrued liability was $75,703,397 and the actuarial value of assets was $43,731,766. The Authority contributed 100.00% of its annual pension cost for fiscal year 2009 and had a net pension obligation of $1,799,084 at June 30, 2009.

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

Note 14. Other Post-Employment Benefits

Plan Descriptions

The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees' Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependents until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP and they may be amended in the future by action of the General Assembly.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2009 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

Funding Policy

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

For those who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

For those who retired on or before September 30, 2008 the fiscal 2009 contributions are as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of $481.28 (the active plan rate).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was $107 for the first six months of fiscal year 2009 and $115 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

For anyone who retired on or after October 1, 2008, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed $631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in note (3) above.

In fiscal year 2009 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs. For the fiscal year ended June 30, 2009 the State and other participating employers paid $37,856,000 into the Plans.

Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to; a.) the annual required contribution of the employer (ARC), which was actuarially determined, plus b.) interest on the net OPEB obligation at the beginning of the

fiscal year, and less c.) the ARC adjustment (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the Plans and the changes in the net OPEB obligation are as follows (dollar amounts in thousands):

	State Employees	Teachers	Judges	State Police	Legislators
Date of Actuarial Valuation	06/30/05	06/30/05	06/30/07	06/30/05	06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution	$ 34,657	$ 2,180	$ 1,105	$ 4,602	$ 297
Plus: Interest on net OPEB obligation at beginning of year	$ 476	$ NA	$ 33	$ 116	$ 8
Less: Adjustment to ARC	$ 450	$ NA	$ 30	$ 110	$ 8
Annual OPEB cost	$ 34,683	$ 2,180	$ 1,109	$ 4,609	$ 298
Participating State and/or other employer contributions	$ 33,355	$ 2,180	$ 170	$ 2,007	$ 144
Increase in OPEB obligation	$ 1,328	$ 0	$ 935	$ 2,595	$ 153
Net OPEB obligation at beginning of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at end of year	$ 14,677	$ 0	$ 1,853	$ 5,850	$ 378

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2009 and 2008 (the first year of GASB 45 implementation) was as follows (dollar amounts in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2008	$ 38,203	65.06%	$ 13,349
	2009	34,683	96.17%	14,677
Teachers	2008	1,428	100.00%	-
	2009	2,180	100.00%	-
Judges	2008	1,382	33.57%	918
	2009	1,109	15.34%	1,853
State Police	2008	4,827	32.57%	3,255
	2009	4,609	43.55%	5,850
Legislators	2008	285	21.05%	225
	2009	298	48.40%	378

The table below displays the funded status of each plan for the year ended June 30, 2007, the most recent actuarial valuation date (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

There were changes in actuarial assumptions in the June 30, 2007 valuation. These include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System of Rhode Island, the State Police Retirement Benefits and Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted to 110%.

Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan. The June 30, 2007 actuarial valuation will be used to determine the annual required contribution for fiscal 2010.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal years ended June 30, 2008 and 2009. The annual required contribution

actuarial accrued liability as of the June 30, 2005 transition date is amortized over a period of 30 years using the level (principal and interest combined) percent of payroll contribution amortization method.

Plan changes effective for employees retiring on or after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2005. The estimated impact of retirements prior to October 1, 2008 and the resulting decrease in the workforce in conjunction with the plan changes has been reflected in the actuarial valuation performed as of June 30, 2005. The actual impact of retirements prior to October 1, 2008 and the resulting decrease in the workforce in conjunction with the plan changes will be reflected in the June 30, 2009 valuation.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

The RIRHCBP does not issue a stand-alone financial report.

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2009, the Program operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2007. For fiscal 2009, annual OPEB cost for the university and colleges was $4,562,422 and actual contributions made were $2,433,613. The financial activity for the Program is accounted for in an agency fund which is included in the accompanying financial statements. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration pursuant to Chapter

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

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

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

Note 16. Risk Management

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

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

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2009 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Liability for unpaid claims	$ 20,650	$ 221,882	$ 224,726	$ 17,806

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Condensed statement of net assets:					
Other assets	$ 2,085,147	$ 1,169,170	$ 29,695	$ 250,577	$ 88,388
Capital assets - nondepreciable			3,117	161,532	433,998
Capital assets - depreciable (net)		2,764	85,096	415,920	222,570
Due from primary government				35,244	
Total assets	2,085,147	1,171,934	117,908	863,273	744,956
Long term debt	1,583,919	1,048,888	23,684	374,030	427,984
Other liabilities	225,212	47,205	4,121	60,303	12,046
Due to primary government					
Total liabilities	1,809,131	1,096,093	27,805	434,333	440,030
Net assets:					
Invested in capital assets, net of related debt	9,138	33	62,835	298,360	240,724
Restricted					
Debt service	214,214	74,334	8,219		
Other				80,164	157
Other nonexpendable	2,412				
Unrestricted	50,252	1,474	19,049	50,416	64,045
Total net assets	276,016	75,841	90,103	428,940	304,926
Condensed statement of activities:					
Program expenses					
Personal services	12,586	3,299	2,548	25,219	17,833
Supplies, materials, and services	5,136	6,368	5,672	19,028	14,206
Interest expense	72,044	31,458			
Depreciation, depletion, and amortization	2,598	1,242	3,419	19,774	7,302
Other program expenses	12,957	4,946	1,145	26,275	13,651
Total program expenses	105,321	47,313	12,784	90,296	52,992
Program revenue					
Charges for services	97,397	44,381	13,289	61,535	70,544
Operating grants and contributions				6,881	34
Capital grants and contributions				77,768	
Net program (expense) revenue	(7,924)	(2,932)	505	55,888	17,586
Interest and investment earnings	11,554	1,452	1,502	4,961	420
Miscellaneous			62	(2,813)	170
Payments from primary government				22,954	
Change in net assets	3,630	(1,480)	2,069	80,990	18,176
Beginning net assets as restated	272,386	77,321	88,034	347,950	286,750
Ending net assets	276,016	75,841	90,103	428,940	304,926

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,593	$ 115,007	$ 24,493	$ 16,822	$ 1,169
Capital assets - nondepreciable		15,159	194	24,048	
Capital assets - depreciable (net)	45	44,944	1,255	70,875	
Due from primary government				3,751	
Total assets	9,638	175,110	25,942	115,496	1,169
Long term debt		15,210	303		
Other liabilities	126	97,625	1,911	33,017	853
Due to primary government		3,000		7,939	
Total liabilities	126	115,835	2,214	40,956	853
Net assets:					
Invested in capital assets, net of related debt	45	52,380	1,450	86,983	
Restricted					
Debt service					
Other		284	22,278		
Other nonexpendable					
Unrestricted	9,467	6,611		(12,443)	316
Total net assets	9,512	59,275	23,728	74,540	316
Condensed statement of activities:					
Program expenses					
Personal services		12,466	2,971	70,049	
Supplies, materials, and services		18,583	10,443	20,794	97
Interest expense					
Depreciation, depletion, and amortization	12	10,408	244	9,814	
Other program expenses	2,443	2,040	12,237	5,120	17
Total program expenses	2,455	43,497	25,895	105,777	114
Program revenue					
Charges for services	2,212	45,526	14,986	34,010	77
Operating grants and contributions			574	21,181	
Capital grants and contributions				20,657	
Net program (expense) revenue	(243)	2,029	(10,335)	(29,929)	(37)
Interest and investment earnings	51	1,628	559	104	5
Miscellaneous	(3)	1,026	133	3,078	(125)
Payments from primary government		(7,500)	7,284	33,613	
Change in net assets	(195)	(2,817)	(2,359)	6,866	(157)
Beginning net assets as restated	9,707	62,092	26,087	67,674	473
Ending net assets	9,512	59,275	23,728	74,540	316

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 991,518	$ 3,953	$ 3,685	$ 997	$ 5,334
Capital assets - nondepreciable		181		1,354	
Capital assets - depreciable (net)	37	339		5,423	9
Due from primary government					
Total assets	991,555	4,473	3,685	7,774	5,343
Long term debt	619,218		6,714	222	
Other liabilities	12,086	842	401	510	1,110
Due to primary government				232	
Total liabilities	631,304	842	7,115	964	1,110
Net assets:					
Invested in capital assets, net of related debt	37	520		6,777	9
Restricted					
Debt service	336,939				
Other			(3,502)	889	1,747
Other nonexpendable					
Unrestricted	23,275	3,111	72	(856)	2,477
Total net assets	360,251	3,631	(3,430)	6,810	4,233
Condensed statement of activities:					
Program expenses					
Personal services	583			3,505	2,190
Supplies, materials, and services		119	27	141	41
Interest expense	27,651				5
Depreciation, depletion, and amortization	423	14	104	968	16
Other program expenses	3,204	21	298	1,556	1,634
Total program expenses	31,861	154	429	6,170	3,886
Program revenue					
Charges for services	22,877	784	1,097	4,045	3,328
Operating grants and contributions	8,186				
Capital grants and contributions					
Net program (expense) revenue	(798)	630	668	(2,125)	(558)
Interest and investment earnings	9,630	41	70	(125)	(757)
Miscellaneous			3	53	
Payments from primary government				2,018	528
Change in net assets	8,832	671	741	(179)	(787)
Beginning net assets as restated	351,419	2,960	(4,171)	6,989	5,020
Ending net assets	360,251	3,631	(3,430)	6,810	4,233

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 245,659	$ 45,789	$ 25,244	$ 3,994	$ 5,116,234
Capital assets - nondepreciable	13,503	11,750	4,960		669,796
Capital assets - depreciable (net)	435,647	79,859	41,592	3,261	1,409,636
Due from primary government	5,747	1,294	2,016	2,763	50,815
Total assets	700,556	138,692	73,812	10,018	7,246,481
Long term debt	237,989	17,933	8,586	1,633	4,366,313
Other liabilities	59,605	19,452	11,770	8,616	596,811
Due to primary government		18,637		21	29,829
Total liabilities	297,594	56,022	20,356	10,270	4,992,953
Net assets:					
Invested in capital assets, net of related debt	268,682	60,246	39,100	3,209	1,130,528
Restricted					
Debt service					633,706
Other	30,597	3,805	5,349	217	141,985
Other nonexpendable	78,022	15,177			95,611
Unrestricted	25,661	3,441	9,007	(3,678)	251,697
Total net assets	402,962	82,669	53,456	(252)	2,253,527
Condensed statement of activities:					
Program expenses					
Personal services	252,676	87,383	73,393	44,002	610,703
Supplies, materials, and services	116,579	25,107	27,349	11,492	281,182
Interest expense					131,158
Depreciation, depletion, and amortization	21,204	5,106	3,089	260	85,997
Other program expenses	27,911	7,294	3,651	8	126,408
Total program expenses	418,370	124,890	107,482	55,762	1,235,448
Program revenue					
Charges for services	343,431	80,457	62,257	12,894	915,127
Operating grants and contributions		2,591	820		40,267
Capital grants and contributions	48,267	9,861	1,222		157,775
Net program (expense) revenue	(26,672)	(31,981)	(43,183)	(42,868)	(122,279)
Interest and investment earnings	(18,839)	(3,350)	(64)	11	8,853
Miscellaneous	14,372	17			15,973
Payments from primary government	62,319	39,895	44,809	41,572	247,492
Change in net assets	31,180	4,581	1,562	(1,285)	150,039
Beginning net assets as restated	371,782	78,088	51,894	1,033	2,103,488
Ending net assets	402,962	82,669	53,456	(252)	2,253,527

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 7,284	Operating assistance
R.I. Economic Development Corporation	13,085	Operating and capital assistance
University of Rhode Island	62,290	Operating assistance
Rhode Island College	40,068	Operating assistance
Community College of Rhode Island	45,177	Operating assistance
Central Falls School District	40,884	Operating assistance
R.I. Public Transit Authority	9,277	Operating assistance
R.I. Resource Recovery Corporation	(7,600)	Surplus remitted pursuant to law
ISTEA		
R.I. Public Transit Authority	34,545	Operating assistance
RI Economic Development Corporation	34,812	Capital assistance-primarily Intermodal train station
Bond Capital		
RI Economic Development Corporation	7,905	Construction, improvements primarily at Quonset
University of Rhode Island	27,410	Construction, improvement or purchase of assets
Rhode Island College	5,497	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	8,412	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	12,250	Construction, improvement or purchase of assets
Total Governmental Activities	$ 341,296	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,584	$ 2,663	$ 19,247	$ (18,160)	$ 1,087
Loans to other funds	112,951	1,732	114,683	(113,601)	1,082
Total assets	$ 129,535	$ 4,395	$ 133,930	$ (131,761)	$ 2,169
Liabilities					
Due to other funds	$ 16,166	$ 1,994	$ 18,160	$ (18,160)	$
Loans from other funds	108,691	4,910	113,601	(113,601)	
Total liabilities	$ 124,857	$ 6,904	$ 131,761	$ (131,761)	$
Program revenue					
General government	$ 29	$ 317,439	$ 317,468	$ (317,468)	
Human services		6,570	6,570	(6,570)	
Public safety		14,022	14,022	(14,022)	
Expenses					
General government	29	317,852	317,881	(317,881)	
Human services		6,996	6,996	(6,996)	
Public safety		13,183	13,183	(13,183)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 622,212	$	$ 622,212	$ (306,804)	$ 315,408
Operating transfers out	(304,351)	(2,453)	(306,804)	306,804	
Net transfers	$ 317,861	$ (2,453)	$ 315,408	$	$ 315,408

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 613	$	$ 613	$ (613)	$
	$ 613	$	$ 613	$ (613)	$
Liabilities					
Due to other funds	$ 1,700	$	$ 1,700	$ (613)	$ 1,087
	$ 1,700	$	$ 1,700	$ (613)	$ 1,087
Transfers					
Operating transfers in	$ 30,369	$	$ 30,369	$ (30,369)	$
Operating transfers out	(345,777)		(345,777)	30,369	(315,408)
Net transfers	$ (315,408)	$	$ (315,408)	$	$ (315,408)

B. Related Party Transactions

The R.I. Public Rail Corporation received $7,500,000 from the State of Rhode Island to fund an indemnity reserve which was required by a multi-party agreement in relation to the Intermodal Transportation Facility Project in Warwick Rhode Island. The project, which involves bringing rail service to the T.F. Green Airport in Warwick, Rhode Island, is being constructed by the Rhode Island Airport Corporation with funding through the federal and state governments. Insurance requirements mandated by the project participants included the funding of an indemnity reserve in the amount of $7,500,000. The indemnity reserve was funded with the proceeds from the State until such time as a letter of credit could be

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

obtained to meet the indemnity reserve requirement. The funds obtained from the State to fund the indemnity reserve are due to the State (primary government) upon satisfaction of the indemnity requirement or upon obtaining a letter of credit to meet such requirement.

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. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2009 were as follows:

Guaranteed loans outstanding at June 30, 2009	$664,795,000
Loans guaranteed during the year	301,412,000
Guarantee claims paid during the year	18,967,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2009 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-

thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

The Narragansett Bay Commission has approximately $269,000,000 of loans payable to the R.I. Clean Water Finance Agency.

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2008			
Net assets as previously reported	$ 829,461	$ 2,116,645	
Fund balance as previously reported			$ 685,191
Correction of errors	57,394	(13,157)	
GASB pronouncement - Pollution Remediation	(11,201)		
New component unit	534		134
June 30, 2008 net assets/fund balance as restated	$ 876,188	$ 2,103,488	$ 685,325

The beginning net assets of Governmental Activities within the government-wide financial statements increased by $57,394,000 due to an error in the recording of infrastructure and decreased by ($11,201,000) due to the implementation of GASB 49- *Accounting and Financial Reporting for Pollution Remediation Obligations*. Also, the beginning net assets of Governmental Activities within the government-wide financial statements and beginning fund balance of the Statement of Revenues, Expenditures, and Changes in Fund Balances in the fund financial statements were increased by $534,000 and $134,000, respectively. This increase is the result of the R.I.Public Rail Corporation being added as a blended component unit for the fiscal year ended June 30, 2009.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $13,000,000 to correct errors in prior periods. This decrease primarily consists of a $7.8 million decrease in net assets for the R.I. Resource Recovery Corporation due to the implementation of GASB 49- *Accounting and Financial Reporting for Pollution Remediation Obligations* and a decrease in net assets of the R. I. Public Transit Authority of $5.4 million due to a correction in the calculation of the casualty reserve and a change in accounting for debt service owed to the State.

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.8 percent of estimated general revenues. The remaining 2.2 percent is contributed to the Budget Reserve Account until such account equals 3.4 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

Budgetary Compliance

The General Fund ended fiscal 2009 with an operating deficit of $36.7 million resulting from a shortfall in anticipated tax revenues. Actual general revenues were $63.3 million less than budget and actual general revenue expenditures were $74 thousand less than the final budget. An appropriation of $22 million was made from the Budget Reserve and Cash Stabilization Account to reduce the anticipated deficit.

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2009:

- Assessed Fringe Benefits Fund ($206,000)
- Central Utilities ($90,000)
- State Telecommunications ($429,000)
- Central Pharmacy ($2,000)
- Records Center ($83,000)
- Health Insurance – Teacher Retirees ($38,000)
- Capitol Police ($1,000)

The deficits will be eliminated through charges for services in fiscal year 2010.

Note 19. Subsequent Events

Primary Government

The State sold $350 million of General Obligation Tax Anticipation Notes in August 2009. The notes bear interest at 2.5% and are due on June 30, 2010.

Subsequent to June 30, 2009, the R.I. Public Rail Corporation (RIPRC) obtained a letter of credit in the amount of $7.5 million with a bank. Upon obtaining the letter of credit, RIPRC returned the $7.5 million that had been advanced by the State to fund an indemnity reserve account.

As of March 26, 2010 the State had borrowed $203.6 million from the Federal Unemployment Trust Fund to partially fund unemployment insurance benefits paid under the Rhode Island unemployment insurance program.

The General Laws were amended to increase the debt authorization limit for the Rhode Island Industrial Recreational Building Authority from $20 million to $60 million.

In response to a request by the Governor, Rhode Island was declared a major disaster area in March 2010 because of severe storms and flooding. Numerous residents and businesses were impacted by the flooding as well as governmental infrastructure (roads, dams, and bridges) in affected areas. Damage estimates have not been accumulated. Additional federal assistance is expected to assist in the clean-up and economic recovery.

Component Units

On July 7, 2009, the R.I. Student Loan Authority (RISLA) issued $25.6 million in Tax-Exempt Fixed Rate 2009 Senior Series A Student Loan Program Revenue Bonds. The proceeds from the 2009 Senior Series A will be used to finance student loans.

In September 2009, the RISLA refinanced approximately $70 million in Stafford and PLUS loans that were funded by the Loan Participation Program created under the Ensuring

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

Continued Access to Student Loans Act (ECASLA). RISLA plans to finance loans with the Straight A Funding asset backed commercial paper conduit authorized under ECASLA. The Straight A Funding Conduit issues commercial paper and the proceeds are used to purchase eligible student loans at a pre-arranged price. Under this program, the Department of Education provides liquidity to the facility by entering into forward purchase commitments with eligible lenders. The program is set to expire in January 2014.

Subsequent to June 30, 2009 RISLA has purchased on various dates from certain holders of its auction rate bonds debt amounting to $34,900,000. The bonds had various original maturity dates ranging from December 1, 2030 to December 1, 2040. RISLA retired that debt immediately after the purchase.

On October 1, 2009 R.I. Housing and Mortgage Finance Corporation (RIHMFC) instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $3.2 million.

On November 25, 2009, RIHMFC issued three series of bonds: $30 million Series 1-A, $45 million Series 1-B and $83 million Series 2. The Series 1 and 2 bonds were issued to make funds available to purchase Program Loans to finance the ownership or improvement of single family housing. Series B Bond proceeds will be held in escrow as security for the Series 2 Bonds only.

On December 9, 2009, RIHMFC issued $65.1 million of Multi-Family Funding Bonds, Series 2009A (Escrow Bonds).

Subsequent to June 30, 2009 the Rhode Island Clean Water Finance Agency had the following significant transactions:

- On July 23, 2009 the agency issued $15 million in short term notes.
- On October 1, 2009 the agency retired $29.9 million of bonded debt.
- On October 6, 2009 the agency sold $41.6 of bonds.
- On October 27, 2009 the agency issued $4.0 million in short term notes.
- On November 19, 2009 the agency sold $9.9 million of bonds.

Subsequent to June 30, 2009 the Community College of Rhode Island (CCRI) reached a settlement with one of the two contractors involved in the contingency referred to in Note 12 above. The settlement was in the amount of $155,000. Therefore, the remaining $3,166,208 is still recognized as a liability by CCRI pending final settlement.

Subsequent to June 30, 2009 the R.I. Health & Educational Building Corporation issued on behalf of Rhode Island College Higher Education Facility Revenue Bonds in the amount of $10,280,000.

Subsequent to June 30, 2009 the R.I. Health & Educational Building Corporation issued on behalf of the University of Rhode Island Higher Education Facility Revenue Bonds in the amount of $13,725,000.

On September 29, 2009 Rhode Island Resource Recovery Corporation sold approximately 5.38 acres of land located in the industrial park for $1,150,000.

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,124,235	$ 970,600	$ 940,514	$ (30,086)
General Business Taxes:				
Business Corporations	161,000	112,000	104,437	(7,563)
Public Utilities Gross Earnings	100,000	115,000	126,665	11,665
Financial Institutions	1,100	4,130	5,359	1,229
Insurance Companies	77,824	80,400	78,017	(2,383)
Bank Deposits	1,700	1,700	1,803	103
Health Care Provider Assessment	47,432	48,400	46,030	(2,370)
Sales and Use Taxes:				
Sales and Use	863,100	823,200	807,947	(15,253)
Motor Vehicle	45,668	50,800	47,926	(2,874)
Motor Fuel	1,200	1,000	1,325	325
Cigarettes	114,500	131,000	130,503	(497)
Alcohol	11,100	10,800	10,812	12
Other Taxes:				
Inheritance and Gift	38,000	30,200	28,097	(2,103)
Racing and Athletics	2,600	2,500	2,451	(49)
Realty Transfer Tax	10,900	7,500	6,811	(689)
Total Taxes	2,600,359	2,389,230	2,338,697	(50,533)
Departmental Revenue	347,628	330,151	318,804	(11,347)
Total Taxes and Departmental Revenue	2,947,987	2,719,381	2,657,501	(61,880)
Other Sources				
Gas Tax Transfer	4,630	4,400	4,328	(72)
Other Miscellaneous	19,400	18,400	17,813	(587)
Lottery	365,500	338,100	337,515	(585)
Unclaimed Property	9,200	8,200	8,044	(156)
Total Other Sources	398,730	369,100	367,700	(1,400)
Total General Revenues	3,346,717	3,088,481	3,025,201	(63,280)
Federal Revenues	1,721,939	2,110,349	2,001,605	(108,744)
Restricted Revenues	150,414	152,892	133,872	(19,020)
Other Revenues	36,776	61,915	57,660	(4,255)
Total Revenues	5,255,846	5,413,637	5,218,338	(195,299)
Expenditures:				
General government	742,355	811,550	768,576	42,974
Human services	2,606,913	2,695,673	2,711,957	(16,284)
Education	1,329,713	1,298,936	1,235,480	63,456
Public safety	413,489	431,746	403,109	28,637
Natural resources	91,637	88,509	69,094	19,415
Total Expenditures	5,184,107	5,326,414	5,188,216	138,198
Transfer of Excess Budget Reserve to RI Capital Fund			66,818	
Total Expenditures	5,184,107	5,326,414	5,255,034	
Change in Fund Balance			(36,696)	
Fund balance - beginning			106,655	
Fund balance - ending			$ 69,959	

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 3,274,978	$ 3,001,258	$ 3,001,184	$ 74
Federal Funds	1,721,939	2,110,349	2,002,158	108,191
Restricted Receipts	150,414	152,892	126,742	26,150
Other Funds	36,776	61,915	58,132	3,783
	$ 5,184,107	$ 5,326,414	$ 5,188,216	$ 138,198

Reconciliation of General Revenue Budget Variance to Unreserved Fund Balance in General Fund

General Revenue Expenditures - Variance - Final Budget to Actual	$ 74
General Revenue - Variance - Final Budget to Actual	(63,280)
Change in Appropriations Carried Forward - Restricted & Other	6,105
Budget Reserve Appropriation	22,000
Other Adjustments	(1,595)
Net Change in Fund Balance - for the fiscal year ended June 30, 2009	(36,696)
Fund Balance - beginning	106,655
Fund Balance - ending	$ 69,959

Debt service expenditures are included in the above respective categories:

General government	$ 149,662
Human services	791
Education	18,209
Public safety	1,133
Natural resources	161
	$ 169,956

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 138,900	$ 132,000	$ 129,831	$ (2,169)
Departmental restricted revenue	1,447	1,450	157	(1,293)
Federal grants	263,437	286,069	217,211	(68,858)
Other revenues	8,321	4,338	3,573	(765)
Total revenues	412,105	423,857	350,772	(73,085)
Other financing sources:				
Operating transfers in			40,937	40,937
Payments from component units			10	10
Total revenues and other financing sources	412,105	423,857	391,719	(32,138)
Expenditures:				
Central Management				
Gasoline Tax	1,916	1,911	1,766	145
Federal Funds	17,372	12,706	3,040	9,666
Total - Central Management	19,288	14,617	4,806	9,811
Management and Budget				
Gasoline Tax	2,162	1,352	173	1,179
Total - Management and Budget	2,162	1,352	173	1,179
Infrastructure - Engineering				
Gasoline Tax	46,425	46,620	43,701	2,919
State Infrastructure Bank	1,344	1,388		1,388
Land Sale Revenue	5,598	2,000	1,332	668
Highway Logo Program	100	100		100
Federal Funds	246,066	273,364	214,223	59,141
Restricted Receipts	1,447	1,450	370	1,080
Subtotal - Infrastructure - Engineering	300,980	324,922	259,626	65,296
State Match - FHWA			45,337	(45,337)
Total - Infrastructure - Engineering	300,980	324,922	304,963	19,959
Infrastructure - Maintenance				
Gasoline Tax	39,336	42,901	45,293	(2,392)
Outdoor Advertising	264	500	313	187
Utility Permit Applications	1,000			
Radio System Upgrade		335	329	6
Nonland Surplus	15	15		15
Total - Infrastructure - Maintenance	40,615	43,751	45,935	(2,184)
Total Expenditures	363,045	384,642	355,877	28,765
Other financing uses:				
Transfers to other funds				
Gas tax			46,331	
USTF fee			2,238	
Other			304	
Total expenditures and other financing uses			404,750	
Net change in fund balance			(13,031)	
Fund balance - beginning			48,431	
Fund balance - ending			$ 35,400	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2009
(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2008	6,745,323	11,077,328	4,332,005	60.9%	1,573,398	275.3%
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%

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)
06/30/2008	54,927	69,030	14,102	79.6%	16,699	84.5%
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%

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)
06/30/2008	34,670	42,455	7,785	81.7%	6,602	117.9%
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2009
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	679,538	679,538	0%	626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	10,243	10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	14,024	14,024	0%	9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	54,620	54,620	0%	15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2009
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

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

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

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

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

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

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

A more detailed budgetary comparison is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provisions due to the enactment of Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2009

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judges and legislators plans as well as the benefits received upon attainment of Medicare eligibility. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

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Exhibit B – State Economic Information

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Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced an average annual population increase of 0.3 percent between 1995 and 2009. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.1 percent in 2009. The 2009 United States census count for Rhode Island was 1,053,000 or 1.3 percent more than the 1,040,000 counted in 1999. In contrast, the total United States population increased by 10.0 percent between 1999 and 2009.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1995 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 2009, Rhode Island per capita personal income was $41,003 versus U.S. per capita personal income of $39,138. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2008 period, Rhode Island's average poverty rate was 11.3 percent versus the U.S. average poverty rate of 12.6 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island nonfarm employment fell at a rate of 0.1 percent in 2007, 2.2 percent in 2008 and decreased 4.1 percent in 2008. The average annual growth rate for Rhode Island nonfarm employment for the 1995 – 2009 period was 0.4 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 29.1 percent (2005-07 3-year average) of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce Report of July 2009 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 1992-93 academic year. For 2006-07 Rhode Island spent 42.0 percent more per pupil than the national average.

Population Characteristics

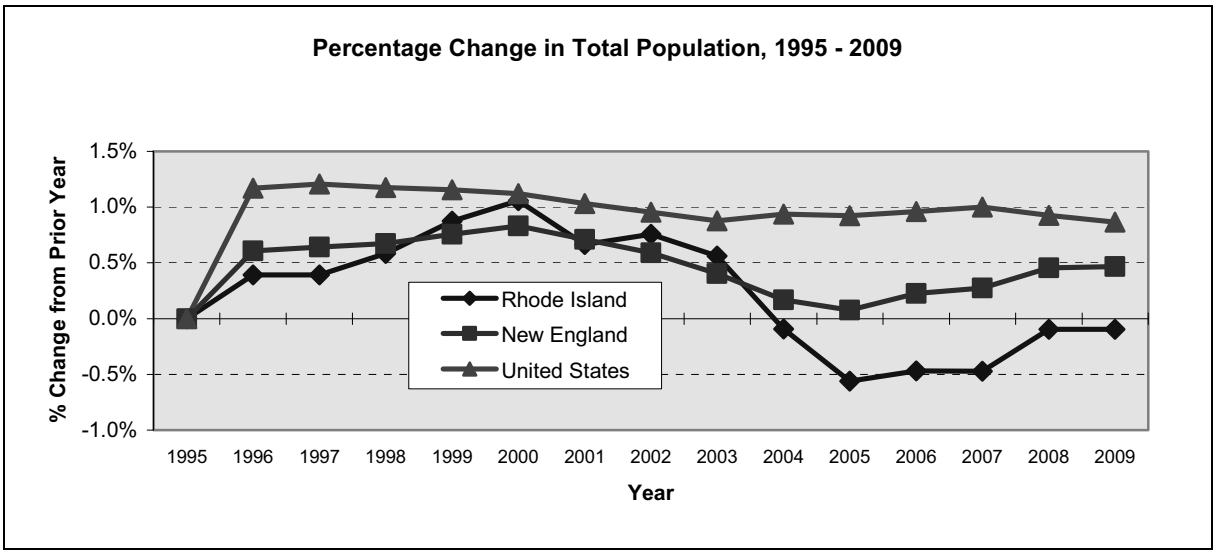
Between 1999 and 2009 Rhode Island's population increased by 1.3 percent, compared to a 4.3 percent increase for the New England region, and a 10.0 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1995 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.4 percent for that period compared to New England's growth rate of 1.9 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.1 percent compared to 2.6 percent for New England as a whole. The 2009 population estimates indicate that Rhode Island's population growth rate, at –0.1 percent over 2008, is again lower than that of New England's growth rate of 0.5 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1999 to 2009 period, the United States' average annual population growth rate was 1.0 percent.

Population, 1995 - 2009
(in thousands)

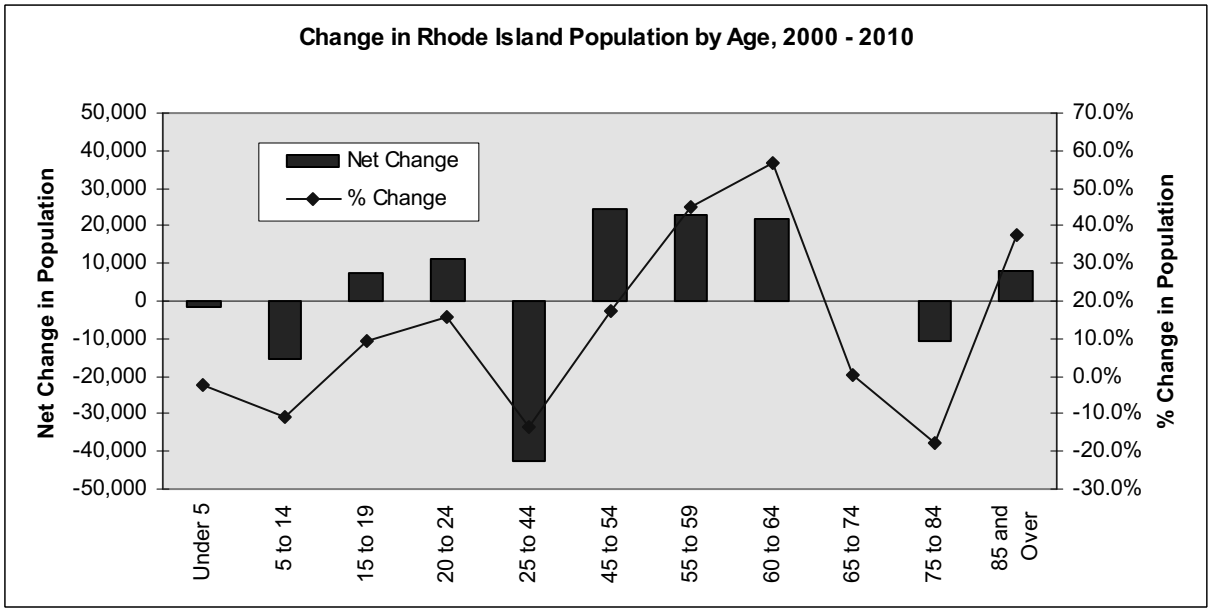
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1995	1,017	-	13,473	-	266,278	-
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,051	1.1%	13,953	0.8%	282,172	1.1%
2001	1,058	0.7%	14,052	0.7%	285,082	1.0%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.6%	14,192	0.4%	290,326	0.9%
2004	1,071	-0.1%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	0.9%
2006	1,060	-0.5%	14,259	0.2%	298,593	1.0%
2007	1,055	-0.5%	14,298	0.3%	301,580	1.0%
2008	1,054	-0.1%	14,363	0.5%	304,375	0.9%
2009	1,053	-0.1%	14,430	0.5%	307,007	0.9%

Bureau of Economic Analysis
U.S. Department of Commerce

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



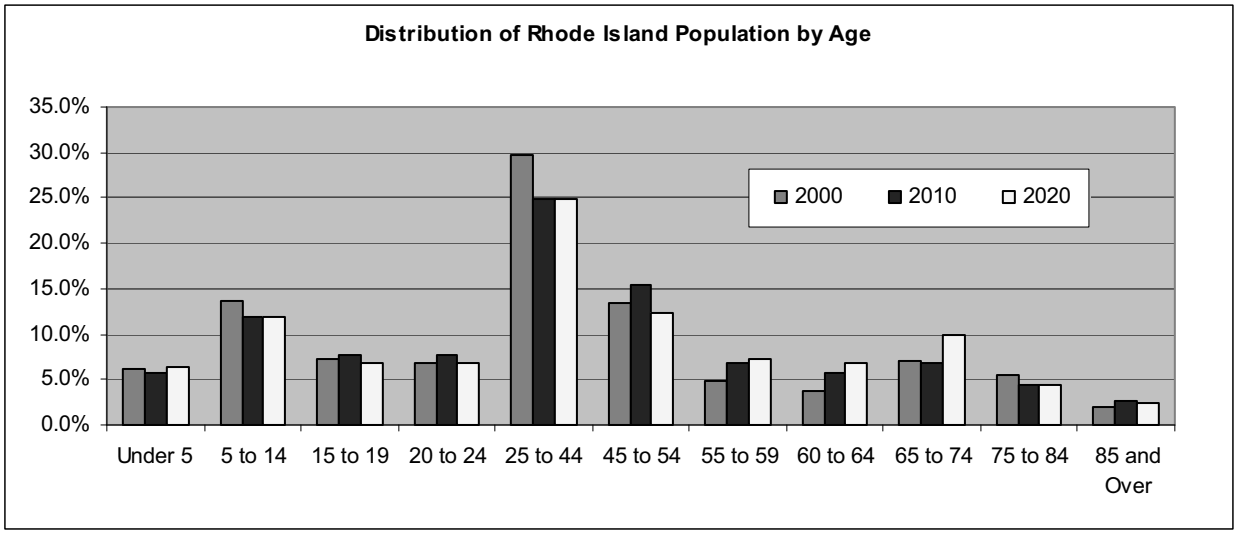
The following chart shows the net change in Rhode Island's population between 2000 and 2010 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "45 to 64" age group is a reflection of this.



U.S. Census Bureau
Projections: R.I. Statewide Planning

The U.S. Census Bureau projects that the 2000 to 2020 period will bring substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state should see a sizeable increase in its older population (i.e., 55 to 74). In addition, the state should experience a decline in its young adult to middle age population (i.e., 25 to 54) and relative stability in its youth to young adult population (i.e., under 5 to 24).

The chart below shows the projected graying of the Rhode Island population in 2020. In 2020, Rhode Island's population is projected to be distributed more heavily in the "55 – 74" age group while the percentage of people in the "15 – 54" age group declines from 2000 levels. In addition, the percentage of the population 85 and over is expected to rise significantly. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2020, the median age for Rhode Islanders is projected to rise to 39.2.



U.S. Census Bureau
Projection: R.I. Statewide Planning

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States from 2001 to 2009. Over this period, Rhode Island per capita nominal personal income averaged $918 more than United States per capita nominal personal income. From 1996 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of $383. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1995 – 2009 by an average of $6,000. 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 $7,750 in 2007.

From 1995 to 1998, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded that of the United States. From 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. However, from 2001 – 2003, this pattern reversed itself again with Rhode Island real personal income per capita growth exceeding that of the United States. For the 2004 to 2006 period, United States real per capita income growth once again exceeded that of Rhode Island. The growth rate in real per capita personal income in the United States and Rhode Island converged in 2008. 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 1995 to 2009, Rhode Island per capita real income growth has exceeded that of New England as a whole only for the periods 2001 – 2003 and 2008 – 2009.

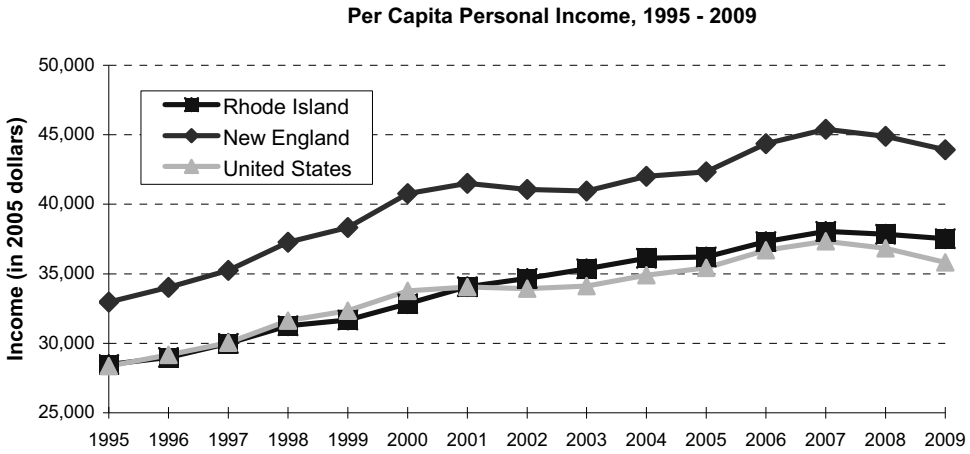
Per Capita Personal Income, 1995 - 2009

	Nominal Income (in current dollars)				Real Income (in 2005 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**2005 Deflator**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1995	23,364	27,048	23,262	82.041%	28,478	32,969	28,354	-	-	-
1996	24,299	28,521	24,442	83.826%	28,987	34,024	29,158	1.8%	3.2%	2.8%
1997	25,621	30,087	25,654	85.395%	30,003	35,233	30,042	3.5%	3.6%	3.0%
1998	26,945	32,128	27,258	86.207%	31,256	37,268	31,619	4.2%	5.8%	5.3%
1999	27,741	33,581	28,333	87.596%	31,669	38,336	32,345	1.3%	2.9%	2.3%
2000	29,484	36,601	30,318	89.777%	32,841	40,769	33,770	3.7%	6.3%	4.4%
2001	31,166	37,965	31,145	91.488%	34,066	41,497	34,043	3.7%	1.8%	0.8%
2002	32,155	38,089	31,462	92.736%	34,674	41,073	33,926	1.8%	-1.0%	-0.3%
2003	33,462	38,758	32,271	94.622%	35,364	40,961	34,105	2.0%	-0.3%	0.5%
2004	35,079	40,801	33,881	97.098%	36,127	42,020	34,894	2.2%	2.6%	2.3%
2005	36,214	42,335	35,424	100.000%	36,214	42,335	35,424	0.2%	0.7%	1.5%
2006	38,349	45,569	37,698	102.746%	37,324	44,351	36,690	3.1%	4.8%	3.6%
2007	40,147	47,897	39,392	105.502%	38,053	45,399	37,338	2.0%	2.4%	1.8%
2008	41,261	48,944	40,166	109.031%	37,843	44,890	36,839	-0.6%	-1.1%	-1.3%
2009	41,003	47,994	39,138	109.247%	37,532	43,932	35,825	-0.8%	-2.1%	-2.8%

Bureau of Economic Analysis
U.S. Department of Commerce

Note: The 2005 "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 1995. 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 – 2009 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1995 – 2009 period.



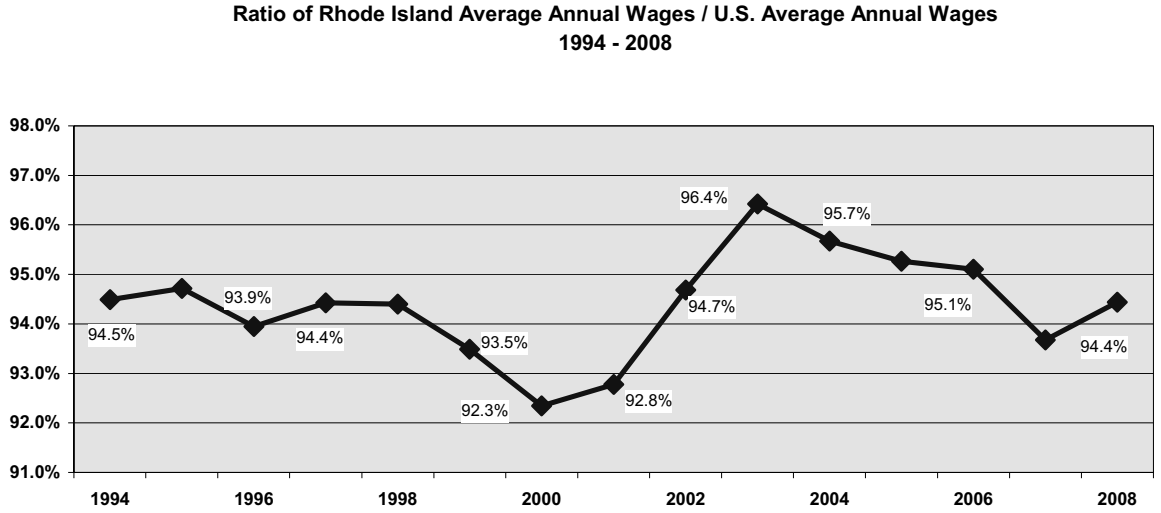
Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1994, average annual pay in Rhode Island was 94.5 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, $36,415 for Rhode Island versus $37,765 for the United States as a whole. In 2004, 2005, 2006, 2007 and 2008 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, 1994 - 2008
(in current dollars)

	Annual Pay			Percentage Change	
Year	**R.I.**	**U.S.**	**Ratio R.I. / U.S.**	**R.I.**	**U.S.**
1994	25,454	26,939	94.5%	-	-
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%

Bureau of Labor Statistics
U.S. Department of Labor

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1994 – 2008 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1995 and 2009. 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 1995 to 2009, the consumer price inflation in the Northeast consistently exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1996, 1998, 1999 and 2007. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2009 the rate was 0.4 percent above the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1995 - 2009

	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
1995	159.1	152.4	104.4%	-	-
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.5	106.9%	0.0%	-0.4%

Bureau of Labor Statistics
U.S. Department of Labor

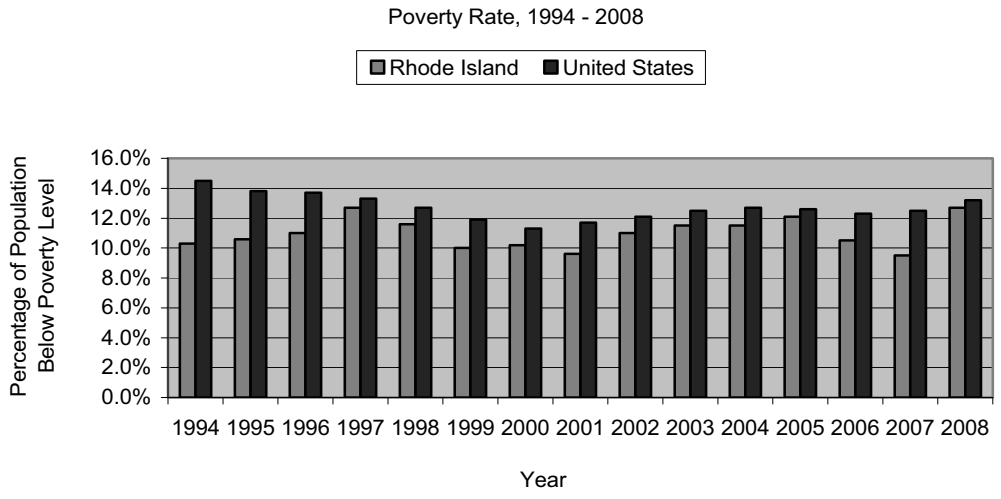
Poverty. From 1994 – 2008 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1994 and 2008, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 12.7 percent in 1997. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 14.5 percent in 1994. Interestingly, in the 2002, 2003, 2005 and 2008 periods, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1994 through 2008.

Poverty Rate, 1994 - 2008

			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
1994	10.3	14.5	71.0%	-	-
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%

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 1994 – 2008. 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 1995 to 2009 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1995 - 2009

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1995	13,600	-	80,300	-	75,600	-	77,600	-	77,200	-	54,600	-	61,300	-	**440,100**	-
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	22,100	4.2%	54,900	-3.7%	80,100	-0.1%	100,200	1.8%	95,300	2.6%	73,500	0.3%	64,900	-0.9%	**491,000**	**0.5%**
2006	23,100	4.5%	52,700	-4.0%	79,800	-0.4%	102,600	2.4%	97,100	1.9%	73,300	-0.3%	64,900	0.0%	**493,300**	**0.5%**
2007	22,500	-2.6%	50,700	-3.8%	79,800	0.0%	101,500	-1.1%	99,200	2.2%	74,600	1.8%	64,400	-0.8%	**492,600**	**-0.1%**
2008	20,600	-8.4%	48,000	-5.3%	77,300	-3.1%	98,800	-2.7%	99,900	0.7%	73,700	-1.2%	63,500	-1.4%	**481,700**	**-2.2%**
2009	18,000	-12.6%	43,200	-10.0%	73,200	-5.3%	94,200	-4.7%	99,700	-0.2%	71,800	-2.6%	61,800	-2.7%	**461,800**	**-4.1%**

R.I. Department of Labor and Training. Labor Market Information

Between 1995 and 2009, total nonfarm employment in Rhode Island increased by 4.9 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing and Trade, Transportation & Utilities which declined by 46.2 percent and 3.2 percent respectively. Employment growth slowed 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 increasing at decreasing rates of 0.9 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively. The first decline in nonfarm employment came in the 2007 – 2009 period with decreases of 0.1 percent, 2.2 percent and 4.1 percent.

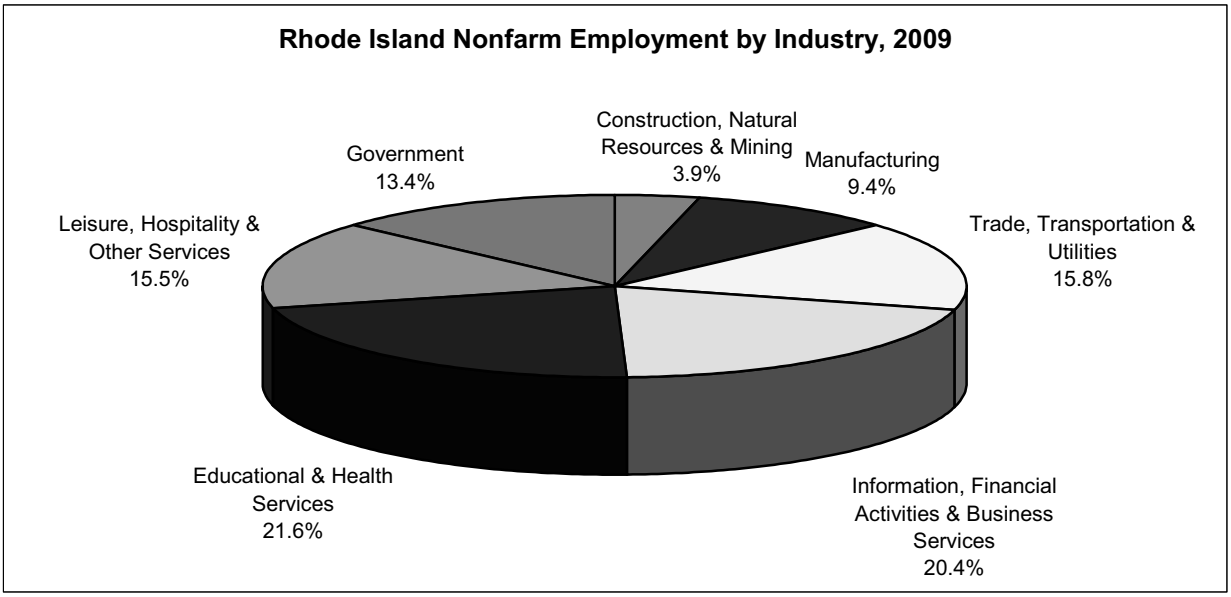
Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1999 to 2009. Total nonfarm employment decreased by 0.8 percent during this period, and the composition of this total employment changed markedly. Manufacturing employment decreased by 40.2 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 15.5 percent. The biggest gaining sector during this period was Educational & Health Services, which grew by 21.1 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1999 to 2009 period, transforming from a manufacturing based economy to service based economy.

Rhode Island Nonfarm Employment by Industry, 1999 & 2009

Employment Sector	1999	% of Total	2009	% of Total	% Change 1999-2009
Construction, Natural Resources & Mining	18,000	3.9%	18,000	3.9%	0.0%
Manufacturing	72,200	15.5%	43,200	9.4%	-40.2%
Trade, Transportation & Utilities	75,700	16.3%	73,200	15.9%	-3.3%
Information, Financial Activities & Business Services	90,000	19.3%	94,200	20.4%	4.7%
Educational & Health Services	82,300	17.7%	99,700	21.6%	21.1%
Leisure, Hospitality & Other Services	64,000	13.7%	71,800	15.5%	12.2%
Government	63,400	13.6%	61,800	13.4%	-2.5%
Total Employment	465,500	100.0%	461,800	100.0%	-0.8%

R.I. Department of Labor and Training - Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Educational and Health Services sector, with 21.6 percent of the nonfarm work force in 2009, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.4 percent), Trade, Transportation and Utilities (15.9 percent), and Leisure, Hospitality and Other Services employment (15.5 percent).



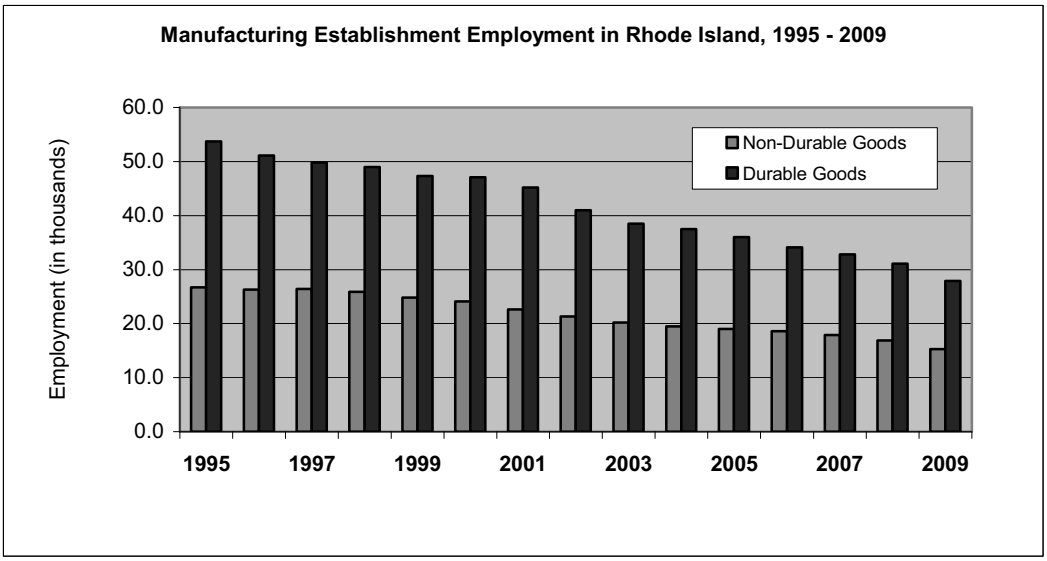
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1995 and 2009, falling by 46.2 percent over this period. The rate of decline 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 2.9 percent in 2004, 3.7 percent in 2005, 4.0 percent in 2006 and 3.8 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 10.0 percent in 2009.

Manufacturing Establishment Employment in Rhode Island, 1995 - 2009
(In Thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Non-Durable Goods	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.9	15.3
Percentage Change	-	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.1%	-3.8%	-5.6%	-9.5%
Durable Goods	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	27.9
Percentage Change	-	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.6%	-4.0%	-5.3%	-3.8%	-5.2%	-10.3%
Total Manufacturing Employment	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	57.0	54.9	52.7	50.7	48.0	43.2
Percentage Change	-	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-2.9%	-3.7%	-4.0%	-3.8%	-5.3%	-10.0%

R.I. Department of Labor and Training - Labor Market Information

Employment in the manufacture of non-durable goods declined in every year since 1995 with the exception of 1997 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island for 2008. Together, the top 100 employ an estimated 156,000 persons, which is one-third of total nonfarm wage and salary employment in the State, excluding municipal employment.

Rhode Island's Largest Employers

Employed	Employer	Industry
15,978	State of Rhode Island - *excluding URI, RIC, and CCRI*	Government
11,772	Lifespan	Health Care and Social Assistance
9,700	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
6,193	Care New England	Health Care and Social Assistance
5,954	CVS Caremark Corporation	Retail Trade
5,500	Citizens Financial Group, Inc.	Finance and Insurance
4,877	Brown University	Educational Services
4,385	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
4,000	Bank of America	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,545	University of Rhode Island	Educational Services
2,300	Fidelity Investments	Finance and Insurance
2,143	General Dynamics Corp.	Manufacturing
2,084	WAL-Mart	Retail Trade
2,079	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
2,056	MetLife Insurance Co.	Finance and Insurance
2,050	The Jan Companies	Other
1,920	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,780	The Home Depot, Inc.	Retail Trade
1,672	Raytheon	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,282	Amica Life Insurance Company	Finance and Insurance
1,270	Johnson & Wales University	Educational Services
1,260	Cox Communications, Inc.	Information
1,228	Rite Aid Pharmacy	Retail Trade
1,205	Verizon Communications	Information
1,200	Amgen, Inc.	Manufacturing
1,198	Landmark Health Systems	Health Care and Social Assistance
1,167	Securitas AB	Administrative and Waste Services
1,144	American Power Conversion Corporation	Manufacturing
1,143	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,089	McDonald's	Other
1,080	AAA Southern New England	Administrative and Waste Services
1,074	GTECH Corporation	Information
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	Hasbro, Inc.	Manufacturing
1,000	Sovereign Bank	Finance and Insurance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
990	Chelo's Restaurants Corporate Offices	Other
950	Veterans' Administration Medical Center	Health Care and Social Assistance
936	Rhode Island College	Educational Services
930	Providence College	Educational Services
925	Newport Harbor Corporation	Other
912	Rhode Island School of Design	Educational Services
900	Twin River (BLB Investors)	Other

R.I. Economic Development Corporation, Research Division.

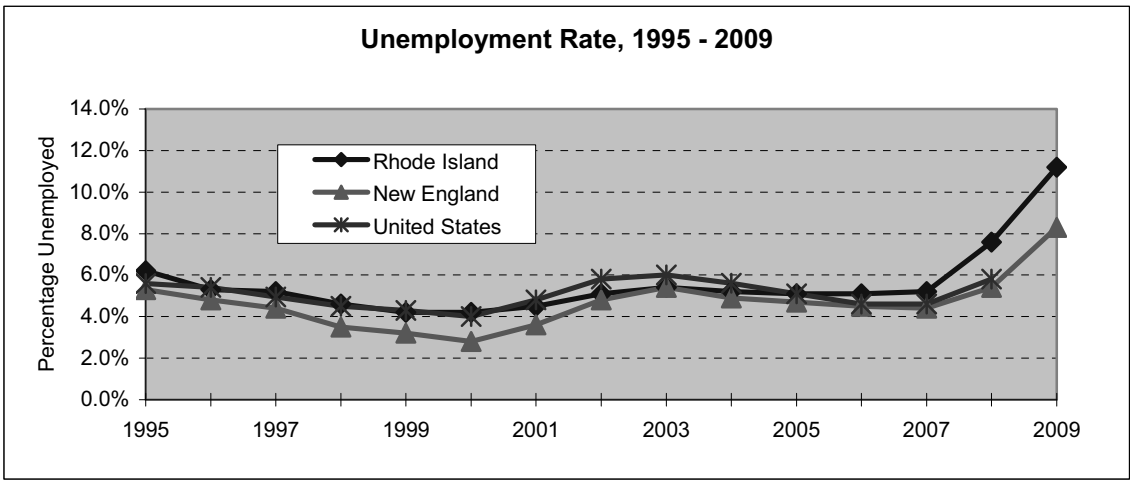
Unemployment. From 1995 to 1998, the Rhode Island unemployment rate was higher than the national unemployment rate with the exception of 1996. This pattern was reversed from 2001 to 2004 when Rhode Island's unemployment rate was lower than that of the United States. From 2006 to 2008, Rhode Island's unemployment rate again rose above the United States. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1995 and 2009.

Annual Average Civilian Labor Force and Unemployment, 1995 - 2009
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a %
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1995	509	7,053	132,304	31	375	7,407	6.2%	5.3%	5.6%	110.9%
1996	517	7,118	133,943	28	340	7,231	5.3%	4.8%	5.4%	98.0%
1997	532	7,228	136,297	28	315	6,729	5.2%	4.4%	4.9%	105.2%
1998	534	7,257	137,673	24	253	6,204	4.6%	3.5%	4.5%	102.2%
1999	541	7,327	139,368	23	234	5,879	4.2%	3.2%	4.3%	97.7%
2000	543	7,348	142,583	23	204	5,685	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,830	4.5%	3.6%	4.8%	93.8%
2002	554	7,496	144,863	28	363	8,376	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,771	5.4%	5.4%	6.0%	90.0%
2004	555	7,476	147,401	29	366	8,140	5.2%	4.9%	5.6%	92.9%
2005(d)	561	7,516	149,320	28	353	7,579	5.1%	4.7%	5.1%	100.0%
2006(d)	571	7,605	151,428	29	344	6,993	5.1%	4.5%	4.6%	110.9%
2007(d)	573	7,650	153,124	30	340	7,077	5.2%	4.4%	4.6%	113.0%
2008(d)	570	7,710	154,287	43	413	8,961	7.6%	5.4%	5.8%	131.0%
2009(d)	567	7,737	154,142	64	641	n/a	11.2%	8.3%	n/a	n/a

Bureau of Labor Statistics
U.S. Department of Labor
(d) Reflects revised population controls and model reestimation.

In May 2010, the State's unemployment rate was 12.3 percent, 127% of the U.S. unemployment rate of 9.7 %. The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1995 - 2009 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

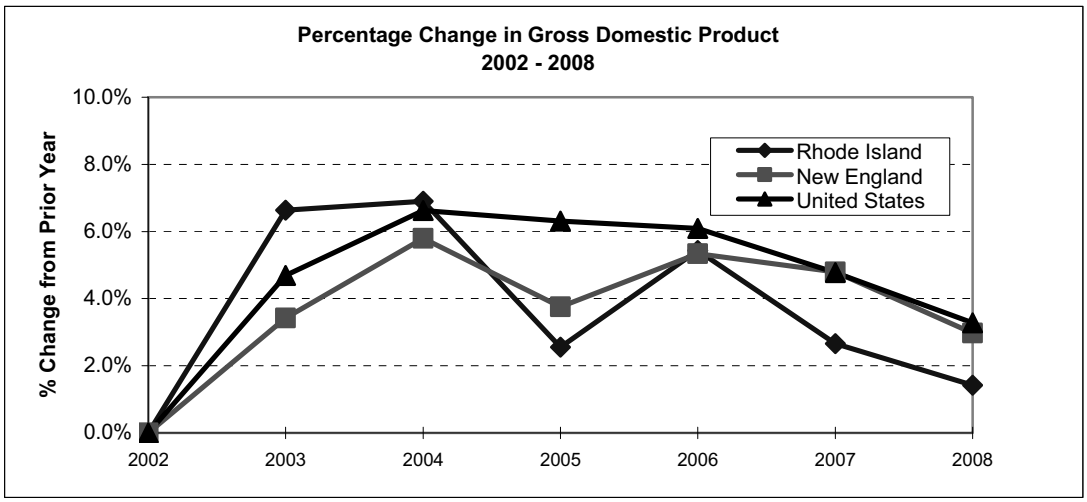
From 2003 - 2004, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2005 - 2008 Rhode Island GDP growth fell behind that of the United States. During the 2003 - 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, both United States GDP growth and New England GDP growth overtook that of Rhode Island for the first time in three years. The table below gives the Gross Domestic Product and the annual growth rates for Rhode Island, New England, and the United States over the 2002 - 2008 period.

Gross Domestic Product, 2002 - 2008
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2002	36,909	-	591,733	-	10,398,402	-
2003	39,357	6.6%	612,006	3.4%	10,886,172	4.7%
2004	42,073	6.9%	647,473	5.8%	11,607,041	6.6%
2005	43,148	2.6%	671,797	3.8%	12,339,002	6.3%
2006	45,491	5.4%	707,672	5.3%	13,090,776	6.1%
2007	46,699	2.7%	741,597	4.8%	13,715,741	4.8%
2008	47,364	1.4%	763,683	3.0%	14,165,565	3.3%

U.S. Department of Commerce. Bureau of Economic Analysis

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2002 - 2008 period. It demonstrates that from 2002 to 2004, Rhode Island's GDP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GDP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in all sectors from 2002 to 2008, excluding agriculture.

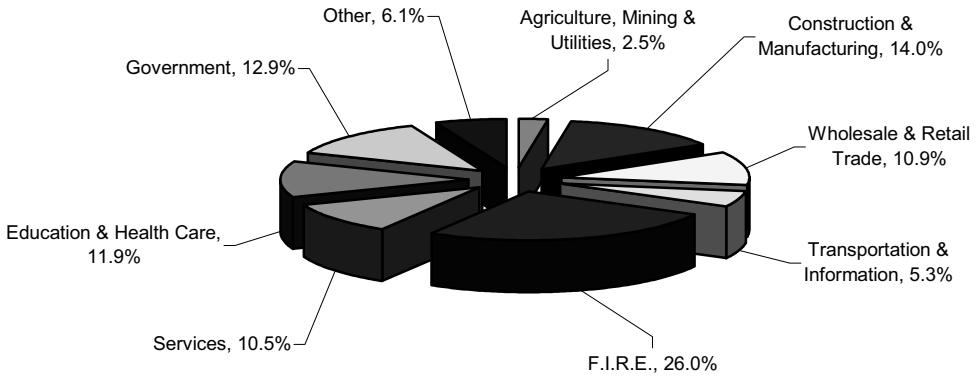
Gross Domestic Product by Industry in Rhode Island, 2002 - 2008
(millions of current dollars)

Industrial Sector	2002	2003	2004	2005	2006	2007	2008
Agriculture, forestry, fishing and hunting	83	88	94	93	94	102	76
Mining	19	20	29	33	34	40	46
Utilities	671	739	794	796	934	961	1,047
Construction	1,730	1,925	2,001	2,190	2,311	2,157	1,995
Manufacturing	4,126	3,806	4,320	3,919	4,533	4,735	4,650
Wholesale Trade	1,862	1,988	2,104	2,208	2,275	2,402	2,375
Retail Trade	2,472	2,613	2,692	2,774	2,785	2,896	2,778
Transportation and warehousing, excluding postal service	557	615	624	632	670	690	709
Information	1,355	1,483	1,675	1,769	1,715	1,691	1,803
Finance and insurance	4,804	5,075	5,434	5,280	5,571	5,364	5,315
Real estate, rental and leasing	5,000	5,553	6,043	6,279	6,451	6,790	6,986
Professional and technical services	1,859	1,948	2,119	2,229	2,533	2,522	2,667
Management of companies and enterprises	517	813	795	927	1,027	1,095	1,118
Administrative and waste services	831	885	974	1,058	1,081	1,141	1,175
Educational services	779	825	896	951	1,004	1,071	1,129
Health care and social assistance	3,397	3,618	3,829	4,031	4,205	4,363	4,527
Government	4,615	4,992	5,183	5,390	5,604	5,853	6,095
Other	2,232	2,371	2,467	2,589	2,664	2,826	2,873
Total GDP	**36,909**	**39,357**	**42,073**	**43,148**	**45,491**	**46,699**	**47,364**

U.S. Department of Commerce. Bureau of Economic Analysis

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2008 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2008



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contributed 26.0 percent of GDP in 2008. In 2008, F.I.R.E. accounted for $12.3 billion of total gross domestic product of $47.4 billion. For the period 2002 - 2008 this sector expanded by a respectable 25.5 percent.

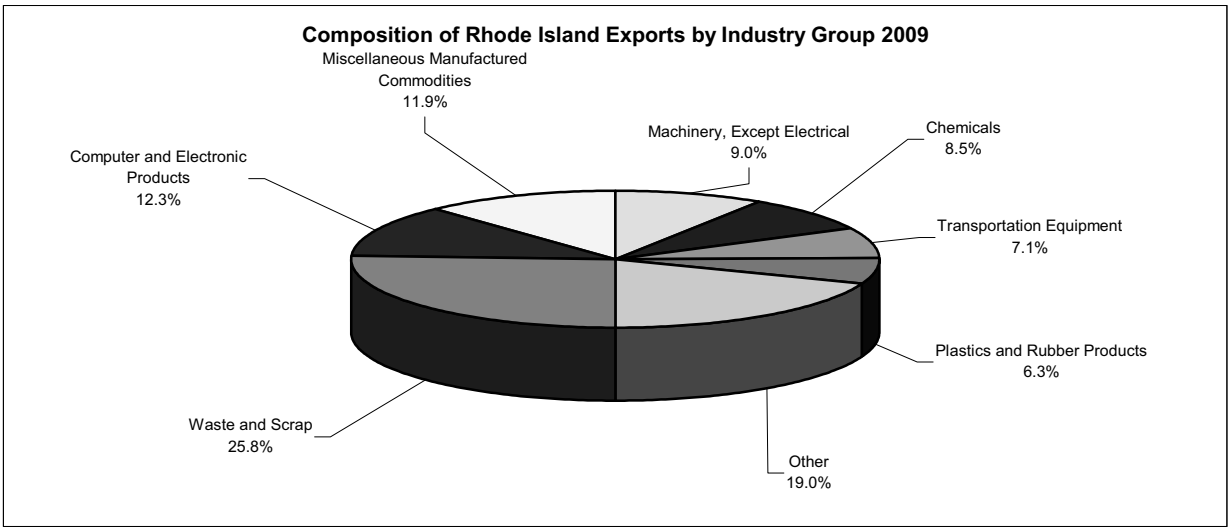
Construction and Manufacturing. In 2008, Construction and Manufacturing was the second largest sector in Rhode Island at $6.6 billion, or 14.0 percent of the total Gross Domestic Product. This sector increased by 13.5 percent from the 2002 level although it decreased in percent contribution to GDP. In 2002, Construction and Manufacturing comprised a slightly larger piece of GDP at 15.9 percent of the total.

Government. At 12.9 percent of GDP in 2008, the Government sector has grown slowly and steadily since 2002. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes only slightly more as a percentage of GDP in 2008 than it did in 2002. In 2002, the Government sector accounted for 12.5 percent of GDP. The growth rate in 2003 was 8.2 percent, in 2004 it was 3.8 percent, in 2005 it was 4.0 percent, in 2006 it was 4.0 percent, in 2007 it was 4.4 percent and in 2008 it was 4.1 percent. In 2008, the Government sector contributed $6.1 billion to total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2002, Services have remained an integral sector accounting for 28.5 percent of Rhode Island's GDP in 2008. From 2002 to 2008, Services have grown by 40.3 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 2006 was $1.53 billion. This represented 3.37 percent of Rhode Island Gross Domestic Product of $45.5 billion. In 2009, Rhode Island's exports decreased to $1.50 billion, a decrease of 2.4 percent over 2006 levels.



The most important exports, as shown in the pie chart above, were waste and scrap (25.8 percent), computer and electronic products (12.3 percent), miscellaneous manufactured commodities (11.9 percent) and machinery, except electrical (9.0 percent).

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2006-2009 period.

Rhode Island Exports by Industry, 2006 - 2009
(in thousands of dollars)

	2006	2007	2008	2009
Total All Industries	1,531,603	1,648,710	1,976,689	1,495,231
Waste and Scrap	278,607	396,185	520,535	385,309
Computer and Electronic Products	178,502	214,302	186,558	184,611
Miscellaneous Manufactured Commodities	222,223	201,929	296,299	178,229
Machinery, Except Electrical	173,097	179,062	245,289	134,996
Chemicals	137,369	164,687	175,538	126,452
Transportation Equipment	49,357	63,660	78,816	106,307
Plastics and Rubber Products	87,860	94,251	115,873	94,626
Primary Metal Manufacturing	129,864	87,626	98,760	65,596
Fabricated Metal Products, NESOI	55,571	48,610	48,158	46,713
Electrical Equipment, Appliances and Component	68,517	72,611	76,427	45,892
Fish - Fresh, Chilled or Frozen & Other Marine Products	35,882	23,859	30,367	29,395
Textiles and Fabrics	29,286	26,724	25,592	21,454
Paper	17,948	15,866	16,064	12,772
Minerals and Ores	2,856	1,486	1,285	11,725
Printing, Publishing and Similar Products	11,996	8,048	10,417	10,401
Food and Kindred Products	8,949	5,007	7,184	8,398
Textile Mill Products	4,681	5,084	6,061	6,966
Nonmetallic Mineral Products	8,906	9,296	8,477	5,692
Furniture and Fixtures	4,773	5,900	6,845	4,166
Special Classification Provisions, Nesoi	10,594	9,066	4,442	4,131
Apparel and Accessories	3,683	4,683	6,942	3,746
Leather and Allied Products	2,842	4,018	3,522	2,588
Used or Second-Hand Merchandise	3,894	1,335	2,783	2,407
Wood Products	504	633	840	793
Livestock and Livestock Products	660	1,301	546	581
Forestry Products, Nesoi	710	568	62	425
Goods Returned to Canada (Exports Only); U.S. Goods	836	381	503	332
Petroleum and Coal Products	644	914	1,378	292
Prepackaged Software	556	91	184	112
Beverages and Tobacco Products	78	105	255	73
Agricultural Products	358	1,422	687	51
Oil and Gas	0	0	0	0

(WISER) - World Institute for Strategic Economic Research
U.S. Census Bureau, Foreign Trade Division

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 1999 the number of housing permits authorized in Rhode Island increased by 22.5 percent. In 2009, the number of housing permits authorized decreased by 20.6 percent in Rhode Island, compared to a decrease of 26.8 percent for New England and a decrease of 37.8 percent for the United States.

Housing Permits Authorized, 1995 - 2009
(seasonally adjusted)

	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1995	2,290	-	37,392	-	1,337,000	-
1996	2,360	3.1%	40,016	7.0%	1,420,000	6.2%
1997	2,721	15.3%	42,274	5.6%	1,442,000	1.5%
1998	2,651	-2.6%	47,906	13.3%	1,619,000	12.3%
1999	3,248	22.5%	47,381	-1.1%	1,662,000	2.7%
2000	2,651	-18.4%	43,751	-7.7%	1,600,000	-3.7%
2001	2,400	-9.5%	42,921	-1.9%	1,639,000	2.4%
2002	2,614	8.9%	47,309	10.2%	1,750,000	6.8%
2003	2,467	-5.6%	48,446	2.4%	1,889,000	7.9%
2004	2,504	1.5%	56,116	15.8%	2,058,000	8.9%
2005	2,911	16.3%	56,746	1.1%	2,162,000	5.1%
2006	2,267	-22.1%	48,198	-15.1%	1,846,000	-14.6%
2007	1,898	-16.3%	36,478	-24.3%	1,391,000	-24.6%
2008	1,158	-39.0%	24,035	-34.1%	897,000	-35.5%
2009	919	-20.6%	17,602	-26.8%	558,000	-37.8%

Federal Reserve Bank of Boston
U.S. Census Bureau

From 1995 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.7 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below.

Existing Home Sales, 1995 - 2009
(seasonally adjusted at annual rates, in thousands)

	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1995	11.6	-	198.5	-	3,846.0	-
1996	12.8	10.3%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	261.8	0.1%	5,656.7	6.2%
2003	16.8	-2.3%	265.8	1.5%	6,175.9	9.2%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.1	-21.1%	214.8	-	4,893.5	-13.7%
2009	15.2	16.0%	220.2	2.5%	5,164.3	5.5%

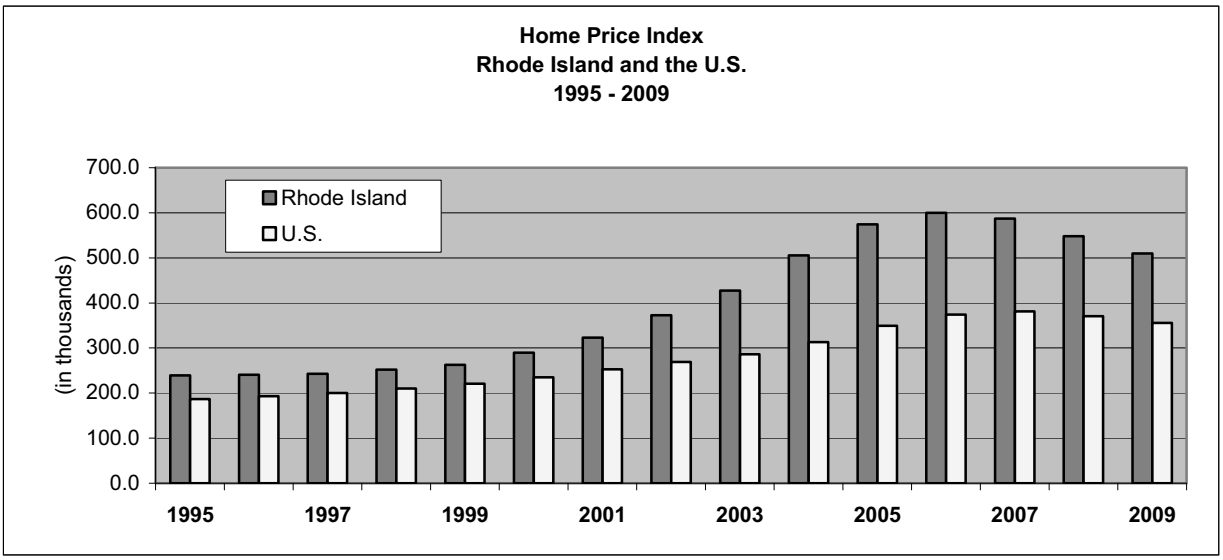
Federal Reserve Bank of Boston
National Association of Realtors

Home Price Index
Rhode Island and the U.S, 1995 - 2009
(not seasonally adjusted, in thousands)

Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
1995	238.9	186.4	128.2%
1996	240.9	193.2	124.7%
1997	242.7	200.1	121.3%
1998	252.2	210.3	119.9%
1999	262.5	220.5	119.0%
2000	289.6	234.9	123.3%
2001	322.9	252.9	127.7%
2002	372.6	269.2	138.4%
2003	427.1	286.3	149.2%
2004	505.8	313.3	161.4%
2005	574.4	349.0	164.6%
2006	600.1	374.3	160.3%
2007	587.3	381.3	154.0%
2008	548.1	370.4	148.0%
2009	509.4	355.5	143.3%

Federal Reserve Bank of Boston
Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appear in the chart below. While the Rhode Island home price index was 128.2 percent of the U.S. average in 1995, by 1999 it had fallen to 119.0 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 164.6 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2009 stands at 143.3 percent of the U.S. level.



Federal Reserve Bank of Boston; Federal Housing Finance Agency

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island remained flat at $418 million. 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 2006. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 2.1 percent of such awards in 2006.

Department of Defense Contract Awards, 1990 - 2006
(in millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island travel and tourism industry report, the 2008 Tourism Satellite Account produced by Global Insight and published on September 27, 2009, travel and tourism sales in Rhode Island were $5.73 billion. This generated 45,538 jobs (9.4% of total state employment) and $1.37 billion in employee compensation (5.5% of the state total). Visitation to Rhode Island fell 6.8% in 2008 to 16.80 million travelers. Leisure visitation fell by 4.3% while business travel experienced a 17.8% decline during 2008.

Business spending made up just over 26% of total expenditures in 2008, compared to just under 20% of total visitation. Business expenditures were down 0.6% in 2008, mainly due to a low concentration in shopping (the lowest performing statewide category) and a strong concentration in entertainment (the best performing statewide category).

Leisure spending fell over 8.5% in 2008, which is a faster rate of decline than leisure visitation, with leisure visitors cutting back on spending in categories like shopping and entertainment. Looking forward, IHS Global Insight forecasts total U.S. leisure travel to rebound quicker and more significantly than business travel, which should benefit R.I. as the concentration of leisure visitors is higher here than in the entire U.S.

Each R.I. visitor/traveler generates about $467 in expenditures, $58 of which goes to R.I. businesses that do not directly "touch" that visitor. Every 160 visitors create a new R.I. job. Each visitor creates about $115 in tax receipts, $63 of which goes to state & local authorities. It takes only 235 visitors to pay for one Rhode Island public school student for one year. Each R.I. visitor generates $174 in wages paid to R.I. workers employed across an array of industries. Each visitor adds about $333 to the State's Gross State Product.

Travel and tourism industry expenditures decreased in 2008 by 5.5%. The entertainment sector had the largest percentage increases in 2008 at 1.5%. Accommodation sales decreased by 1.1%, while transportation decreased by 2.3%. The largest decrease was in the food and shopping sectors with 10.8% and 18.6% decreases to expenditures respectively. Travel and tourism annual salary grew by 3.9% and fell 0.6% for total Tourism. While tourism is responsible for 4.1% of R.I. GSP, it contributed 13.8% of state government revenue in 2008.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1994. The ratio of Rhode Island spending to the national average has varied from 127.2 percent in 1993-94 to a high of 144.3 percent in 2007-08. For the 2007-08 academic year Rhode Island spent 44.3 percent more on public elementary and secondary education than the United States average: $15,843 per student compared to a national average of $10,981 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1993-94 academic year. It should be noted that data for the 2007-08 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1993-94 - 2007-08
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,778	142.3%
2006-07	14,674	10,337	142.0%
2007-08	15,843	10,981	144.3%

U.S. Department of Education, National Center for Education Statistics

For the 2007-08 academic year, Rhode Island per pupil expenditures was the fifth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2007-08
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	20,807	26	Montana	10,541
2	New York	18,423	27	Oregon	10,487
3	New Jersey	18,174	28	Georgia	10,263
4	Alaska	16,002	29	Missouri	10,007
5	**Rhode Island**	**15,843**	30	Colorado	9,977
6	Vermont	15,089	31	Kentucky	9,940
7	Connecticut	15,063	32	Washington	9,846
8	Wyoming	14,936	33	South Carolina	9,823
9	Massachusetts	14,349	34	Florida	9,711
10	Maryland	14,099	35	California	9,673
11	Maine	13,177	36	North Dakota	9,637
12	Delaware	12,789	37	Indiana	9,569
13	Hawaii	12,774	38	Arkansas	9,460
14	Pennsylvania	12,493	39	New Mexico	9,377
15	New Hampshire	12,280	40	Alabama	9,345
16	Illinois	11,624	41	Iowa	9,128
17	Virginia	11,410	42	South Dakota	9,047
18	Ohio	11,374	43	Texas	9,029
19	Wisconsin	11,370	44	Nevada	8,891
20	Nebraska	11,217	45	Arizona	8,630
21	Michigan	11,155	46	Tennessee	8,459
22	Kansas	11,053	47	Mississippi	8,448
23	Louisiana	10,797	48	North Carolina	8,415
24	Minnesota	10,650	49	Oklahoma	8,270
25	West Virginia	10,605	50	Idaho	7,402
			51	Utah	6,841

U.S. Department of Education, National Center for Education Statistics

According to the Rhode Island Office of Higher Education, in fall 2008, the total enrollment in Rhode Island institutions of higher education was 88,671 students, up 9.0% from the 81,382 students from 2006. Enrollment in the public sector totaled 42,601 (48%) and 46,070 in the independent sector (52%).

In 2007, Rhode Island institutions of higher education conferred 16,847 degrees and certificates. Rhode Island public institutions conferred 5,532 awards while the private sector conferred 11,315.

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APPENDIX B

Summary of Certain Provisions of the Agreement

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

The following is a summary of certain provisions of the Loan and Trust Agreement. The summary should not be regarded as a full statement of the document itself or of the portions summarized. Reference is made to the document in its entirety, a copy of which is on file at the designated corporate trust office of the Trustee, for a complete statement of the provisions thereof.

DEFINITIONS

Definitions. The following words and phrases shall have the following meanings (Section 1.01):

2010 Series Bonds:

"2010 Series Bonds" means the Bonds issued pursuant to the authority of Section 2.02 of the Agreement.

Account Receivable:

“Account Receivable” means and includes any and all accounts, contract rights, notes, drafts, acceptances and all forms of obligations or receivables now or hereafter owed or belonging to Obligor for inventory or other goods sold by it or for services rendered by it in the ordinary course of business of Obligor, all guarantees or other security therefor, all right, title and interest of Obligor in the inventory or other goods which gave rise thereto, including, but not limited to, the right of stoppage in transit, and all rights of Obligor earned or yet to be earned under contracts to sell inventory or other goods or render services, and all proceeds thereof.

Additional Bonds:

"Additional Bonds" shall mean one or more series of Additional Bonds, other than the 2010 Series Bonds, authorized and issued pursuant to the Agreement.

Affiliates:

“Affiliates” means singly and collectively any Person that directly or indirectly, through one or more intermediaries, controls is controlled by, or is under common Control with another Person.

Agreement:

"Agreement" shall mean the Loan and Trust Agreement dated as of October 1, 2010 by and among the Corporation, the Obligor and the Trustee as from time to time amended or supplemented by Supplemental Agreements in accordance with Article IX of the Agreement.

Annual Appropriation Amount:

"Annual Appropriation Amount" shall mean, as of any particular date of computation, an amount of money, equal to the greatest of the respective amounts, for the current or any future fiscal year of the Corporation, of annual debt service on the Bonds, such annual debt service for any fiscal year of the Corporation being the amount of money equal to the sum of (i) the interest due and payable during such fiscal year on all the Bonds outstanding on the date of computation, plus (ii) the principal amount of all such Bonds outstanding on said date of computation that is due or matures or is subject to mandatory sinking fund payments (in accordance with the amortization schedule attached to the Bonds) during such fiscal year.

Annual Guaranty Fee:

“Annual Guaranty Fee” shall mean the Annual Guaranty Fee as defined in Section 2.06A(b)(ii) hereof.

Applicable Laws:

“Applicable Laws” means all present and future statutes, rules and regulations promulgated under statutes and interpretation of statutes, rules, regulations, decisions, decrees, policies, ordinances, directives, instructions, notices and orders of any Governmental Authority having jurisdiction over Obligor or the Corporation, its or their business or its or their properties.

Authorized Representative:

"Authorized Representative" or "Authorized Officer" shall mean (a) in the case of the Corporation, the Chairman, Vice-Chairman, Executive Director or Secretary of the Corporation, or any officer or employee of the Corporation authorized to perform specific acts or duties by resolution duly adopted by the members of the Corporation, and (b) in the case of the Obligor, its President/Chief Executive Officer or Secretary or Treasurer and any

other person duly authorized by its Board of Directors to act as an authorized representative for the purposes of the Agreement.

Bond:

"Bond" or "Bonds" shall mean any bond or bonds, as the case may be, issued, authenticated and delivered pursuant to this Agreement, which consists of the 2010 Series Bonds and any Additional Bonds.

Bond Registrar:

"Bond Registrar" shall mean The Bank of New York Mellon Trust Company, N. A.

Bondholder:

"Bondholder", "Holder of Bonds" or "Holder" shall mean the registered owner of any registered Bond.

Borrowed Money:

“Borrowed Money” means any obligation to repay money, including but not limited to any Indebtedness evidenced by promissory notes, bonds, debentures, guaranties or similar obligations, the Loans and any Indebtedness under any obligation under a conditional sale or other title retention agreement, the net aggregate rentals under any Capitalized Lease Obligation or any lease that is the substantial equivalent of the financing of the property so leased and any reimbursement obligation for any standby letter of credit.

Capital Reserve Fund:

"Capital Reserve Fund" shall mean the trust fund created and established as the Rhode Island Economic Development Corporation, 38 Studios, LLC Project Capital Reserve Fund by Section 5.04 hereof.

Capitalized Interest Amount:

“Capitalized Interest Amount” is a dollar amount equal to the amount required to pay those interest payments due on the 2010 Series Bonds for the interest payments commencing May 1, 2011 through November 1, 2012. The Capital Interest Amount is equal to Ten Million Six Hundred Four Thousand Seventy-Six and 63/100 Dollars ($10,604,076.63).

Capitalized Lease Obligation:

"Capitalized Lease Obligation" means all lease obligations that have been or should be, in accordance with GAAP, capitalized on the books of the lessee.

Cash Equivalent Investments:

"Cash Equivalent Investments" shall mean any Investment in (i) direct obligations of the United States or any agency, authority or instrumentality thereof, or obligations guaranteed by the United States or any agency, authority or instrumentality thereof, whether or not supported by the full faith and credit of, a right to borrow from or the ability to be purchased by the United States; (ii) commercial paper rated in the highest grade by a nationally recognized statistical rating agency or which, if not rated, is issued or guaranteed by an issuer with outstanding long-term debt rated A or better by any nationally recognized statistical rating agency; (iii) demand and time deposits with, and certificates of deposit and bankers acceptances issued by, any office of the Trustee or any other bank or trust company which is organized under the laws of the United States or any state thereof and has capital, surplus and undivided profits aggregating at least $500,000,000, the outstanding long-term debt of which or of the holding company of which it is a subsidiary is rated A or better by any nationally recognized statistical rating agency; (iv) any short-term note which has a rating of SP-2 or better by Standard & Poor's Rating Agency; (v) any municipal bond or other governmental obligation (including without limitation any industrial revenue bond or project note) which is rated A or better by Standard & Poor's Rating Agency; (vi) any other obligation of any issuer, the outstanding long-term debt of which is rated A or better by Standard & Poor's Rating Agency; (vii) any repurchase agreement with any financial institution described in clause (iii) above, relating to any of the foregoing instruments and fully collateralized by such instruments; and (viii) any money market mutual funds having a rating in the highest investment category granted by Standard & Poor's Rating Agency or Moody's Investor Service.

Code:

"Code" means the United States Internal Revenue Code and applicable regulations promulgated thereunder, as amended from time to time.

Collateral:

"Collateral" means the Trust Estate and the Gross Proceeds and proceeds thereof.

Commitment Fee:

"Commitment Fee" means the Commitment Fee specified as such in Section 2.06A(b)(ii).

Commonly Controlled Entity:

"Commonly Controlled Entity" means a Person, whether or not incorporated, that is under common control with Obligor within the meaning of Section 414(b) or (c) of the Code.

Control:

"Control" including the terms "controlling", "controlled by" and "under common control with" means the possession, directly or indirectly of the power to vote ten percent (10%) or more of the Equity Interests having ordinary voting power for the election of directors or other managers of the Person in question or cause the direction of the management and policies, whether through ownership of Equity Interests, by contract or otherwise.

Corporation:

"Corporation" shall mean the Rhode Island Economic Development Corporation, a public corporation, governmental agency and public instrumentality of the State of Rhode Island duly organized and existing under the laws of the State of Rhode Island, and any body, board, corporation, agency or other political subdivision or instrumentality of the State which shall hereafter succeed to the powers, duties, and functions thereof.

Costs of Issuance:

"Costs of Issuance" shall mean financial, legal, bond counsel, accounting, rating agency and printing fees, charges and expenses, including legal and placement agent fees with respect to the 2010 Series Bonds, and all other such fees, charges and expenses approved by the Corporation, and incurred in connection with the authorization, sale, issuance and delivery of the Bonds, including, without limitation, the fees and expenses of the Corporation (including reasonable legal fees), the Trustee and the Paying Agent properly incurred under this Agreement that may become due and payable during the period of existence of the EDC Project.

Date of Issuance of Bonds:

"Date of Issuance of Bonds" means November 2, 2010.

Deferred Fee:

"Deferred Fee" means the Deferred Fee specified as such in Section 2.06A(b)(iv) hereof.

EDC Project:

"EDC Project" means (i) the relocation of the Obligor's corporate headquarters and primary place of business to the State and (ii) for the establishment by Obligor in the State and the operation thereof of a video gaming studio in the City of Providence in the State including, but not limited to, costs and expenses related to the development of assets, associated with role playing video gaming and massively multiplayer games, including the development of specific products for such purposes.

EDC Project Costs:

"EDC Project Costs" means the costs and expenses of the EDC Project including, but not limited to, Costs of Issuance.

Eligible Funds:

"Eligible Funds" means the moneys which are (a) continuously on deposit with the Trustee in trust for the benefit of the Bondholders in a separate and segregated account in which only Eligible Funds are held and (b) (i) proceeds of the Bonds received contemporaneously with the issuance of the Bonds, or (ii) payments made by the Corporation, or received by the Trustee pursuant to this Agreement (including payments in respect of the Loan) if at the time of deposit of such payments and for a period of at least 91 days thereafter no Event of Bankruptcy shall have occurred with respect to the Corporation or the Obligor unless such Event of Bankruptcy shall have been dismissed and such dismissal shall be final and not subject to appeal, or (iii) income derived from the investment of the foregoing; provided that such proceeds shall not be deemed to be Eligible Funds if an injunction, restraining order, stay or similar court action is in effect preventing the payment of such proceeds to the Bondholders. The Trustee shall maintain records of Eligible Funds held by it.

Equity Interests:

"Equity Interests" means the capital stock, partnership interests, membership interests or other applicable equity interests of a Person.

Event of Bankruptcy:

"Event of Bankruptcy means the filing of a petition in bankruptcy under the United States Bankruptcy Code or any other commencement of a proceeding under any other applicable law as now or hereafter in effect, State or any other state or federal or receivership law concerning the insolvency, reorganization or bankruptcy by the Obligor or the Corporation as debtor or against the Obligor or the Corporation as debtor; provided, however, that an Event of Bankruptcy with respect to the Obligor shall only occur after the passage of sixty (60) days without the discharge or dismissal of the proceedings commencing the Event of Bankruptcy.

Event of Default:

"Event of Default" means an event of default as defined in Section 7.01 hereof.

Excess Equity Balance Available for Dividend or Distribution to Equity Holders:

"Excess Equity Balance Available for Dividend or Distribution to Equity Holders" means as defined in Section 6.02A(p).

Excess Operating Income:

"Excess Operating Income" means Excess Operating Income as defined in Section 2.06A(b)(iv) hereof.

Full Time Jobs:

"Full Time Jobs" means "Full Time Jobs with benefits" as defined in Rhode Island General Laws 42-64-20(d)(2).

GAAP:

"GAAP" means generally accepted accounting principles, consistently applied, in effect from time to time in the United States of America.

Government Obligations:

"Government Obligations" means obligations issued or obligations the principal of, and interest on which are fully guaranteed by the United States and which are permitted as investments under Section 5.06(a.) hereof.

Governmental Approvals:

"Governmental Approvals" shall mean all required Federal, State and local development permits and approvals, and other permits and approvals necessary for development of the Project.

Governmental Authorities:

"Governmental Authorities" means the United States of America, the State, the City of Providence, Rhode Island and any political subdivision of any thereof, and any agency, department, commission, board, court or instrumentality of any thereof.

Governmental Requirements:

"Governmental Requirements" means any and all present and future laws, rules, regulations, orders, ordinances, statutes, codes, executive orders and requirements of all Governmental Authorities applicable to the Project.

Gross Receipts:

"Gross Receipts" means all receipts, revenues, income and other moneys received by or on behalf of Obligor, including, but without limiting the generality of the foregoing, revenues derived from operations by the Obligor and from all other projects of the Obligor and all rights to receive the same whether in the form of accounts, accounts receivable, payment intangibles, contract rights or other rights, and the proceeds of such rights, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Obligor.

Guarantor:

"Guarantor" means jointly and severally, 38 Studios Baltimore, LLC a Delaware limited liability company, Mercury Project, LLC, a Delaware limited liability company and any other Subsidiary or Affiliates of Obligor existing as of the date hereof.

Indebtedness:

"Indebtedness" means, for any Person, without duplication, (i) all indebtedness or other obligations of said Person for Borrowed Money or for the deferred purchase price of property or services, (ii) all indebtedness or other obligations of any other Person ("Other Person") for Borrowed Money or for the deferred purchase price of property or services, the payment or collection of which said Person has guaranteed (except by reason of endorsement of negotiable instruments for collection in the ordinary course of business) or in respect of which said Person is liable, contingently or otherwise, including without limitation, liable by way of agreement to purchase or lease, to provide funds for payment, to supply funds to purchase, sell or lease property or services primarily to assure a creditor of such Other Person against loss or otherwise to invest in or make a loan to the Other Person, or otherwise to assure a creditor of such Other Person against loss, (iii) all indebtedness or other obligations of any Person for Borrowed Money or for the deferred purchase price of property or services secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in any property owned by said Person, whether or not said Person has assumed or become liable for the payment of such indebtedness or obligations, (iv) Capitalized Lease Obligations of said Person and (v) all other liabilities or obligations of said Person which would, in accordance with GAAP, be classified as liabilities of such a Person including, but not limited to, trade payables incurred in the ordinary course of business.

Insurance Policy:

"Insurance Policy" means the municipal bond insurance policy issued by the Insurer guaranteeing the scheduled payment of principle of and interest on the Bonds when due.

Insurer:

"Insurer" means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance, Inc.), a New York stock insurance company, or any successor thereto or assignee thereof.

Intangible Property:

"Intangible Property" means all Permits, trademarks, trade names, patents, technical and trade secrets, copyrights and trade names, and other intangible property owned or possessed by Obligor on the date of this Agreement or in the future.

Interest Payment Date:

"Interest Payment Date" shall mean May 1 and November 1 of each year that the Bonds or any portion thereof are Outstanding.

Job Creation Guaranty Program Act:

"Job Creation Guaranty Program Act" shall have the meaning given it in the seventh "WHEREAS" paragraph of the preamble of this Agreement.

Lien:

"Lien" means any, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other) or other security agreement or arrangement of any kind or nature whatsoever amounting, in substance, to a lien (including without limitation any conditional sale or other title retention agreement and any Capitalized Lease Obligation having substantially the same economic effect as any of the foregoing) or the filing of any financing statement under the applicable Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing.

Loan:

"Loan" means the Loan as defined in Section 2.01A hereof.

Loan Payments:

"Loan Payments" means any and all payments received with respect to or due in connection with the Loan.

Minimum Capital Reserve Fund Requirement:

"Minimum Capital Reserve Fund Requirement" shall mean, as of any particular date of computation, an amount of money, equal to the greatest of the respective amounts, for the current or any future fiscal year of the Corporation, of annual debt service on the Bonds, such annual debt service for any fiscal year of the Corporation being the amount of money equal to the sum of (i) the interest payable during such fiscal year on all the Bonds outstanding on the date of computation, plus (ii) the principal amount of all such Bonds outstanding on said date of computation that mature or are subject to mandatory sinking fund payments (in accordance with an amortization schedule attached to the Bonds) during such fiscal year. The Minimum Capital Reserve Fund Requirement is equal to Twelve Million Seven Hundred Forty-Nine Thousand Nine Hundred Twelve and 50/100 Dollars ($12,749,912.50).

Minimum Equity Requirement:

“Minimum Equity Requirement” means the “Minimum Equity Requirement” as defined in Section 6.02A(p).

Multiemployer Plan:

“Multi-employer Plan” means a multiemployer plan as defined in Title IV of ERISA.

Obligor:

"Obligor" shall mean 38 Studios, LLC, a limited liability company organized under the laws of Delaware authorized to do business in the State, and its successors and assigns.

Obligor Default:

“Obligor Default” shall have the meaning assigned to it in Section 7.13 of this Agreement.

Outstanding:

"Outstanding", when used with reference to a Bond or Bonds, as of any particular date, shall mean all Bonds which have been authenticated and delivered hereunder, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Paying Agent for credit against a principal payment; (ii) Bonds cancelled by the Trustee because of payment or redemption at or prior to maturity; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government Obligations or Cash

Equivalent Investments bearing interest at such rates and with such maturities as will provide sufficient funds without reinvestment, to pay the principal of, Redemption Price, if any, and interest rate on such Bonds; provided however, that if any such Bonds are to be redeemed prior to maturity, all action necessary to redeem such Bonds shall have been taken and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee; and provided further, however, that no Bond shall cease to be Outstanding pursuant to clause (iv) hereof unless such funds or funds invested in obligations shall constitute Eligible Funds.

Paying Agent:

"Paying Agent" shall mean any paying agent for the Bonds (and may include the Trustee, as hereinafter defined), and its successor or successors and any other corporation which may at any time be substituted in its place in accordance herewith.

PBGC:

"PBGC" means the Pension Benefit Guarantee Corporation established pursuant to subtitle A of Title 4 of ERISA.

Permits:

"Permits" means any and all permits, licenses, registrations and approvals material to carrying out Obligor's or any Subsidiary's businesses as presently or hereafter conducted and as required by Applicable Law of any Governmental Authority having jurisdiction over Obligor or any Subsidiary.

Person:

"Person" means any person or entity including, but not limited to, any individual, corporation, partnership, limited liability company, joint venture, trust, trustee (in such capacity) or unincorporated organization, or a government or any agency or political subdivision thereof.

Plan:

"Plan" means an employee benefit plan or other plan maintained for employees of Obligor or any Commonly Controlled Entity and covered by Title IV of ERISA.

Program Account:

"Program Account" shall mean that Account defined as such in Section 5.04(b) hereof.

Project Copernicus:

"Project Copernicus" means a massively multiplayer on-line video game (commonly referred to as an "MMO" or an "MMOG") currently being developed by the Obligor.

Project Fund:

"Project Fund" shall mean the trust fund created and established by Section 4.04 hereof.

Record Date:

"Record Date" shall mean the date which is fifteen (15) days prior to any date on which any interest payment is due on the Bonds if such day is a day on which the Trustee is open to conduct its business or, if not, then the next such business day.

Redemption Price:

"Redemption Price" shall mean, with respect to any Bond, the unpaid principal amount thereof plus the applicable premium, if any, calculated pursuant to Section 2.02(c) hereof, payable upon redemption thereof pursuant to such Bond or this Agreement.

Reportable Event:

"Reportable Event" shall have the meaning assigned to that term in Title IV of ERISA.

Security Documents:

"Security Documents" means (i) a Security and Pledge Agreement of even date herewith by and between Obligor and the Corporation granting security interest in all assets of Obligor, tangible and intangible; (ii) a Continuing and Unconditional Guaranty of 38 Studios Baltimore, LLC of even date secured by a Guaranty Security and Pledge Agreement of even date granting a security interest in all assets of 38 Studios Baltimore, LLC to secure the Guaranty; (iii) a Continuing and Unconditional Guaranty of Mercury Project, LLC secured by a Guaranty Security and Pledge Agreement of even date herewith by and between Mercury Project, LLC and the Corporation; (iv) an Assignment of Guaranties and Security Agreements executed by the Corporation in favor of the Trustee and (v) those Patent Security Agreements and Copyright Mortgages referenced in the foregoing documents and all documents, instruments, licenses, UCC-1 Financing Agreements and other papers, documents and instruments executed and delivered in connection with the foregoing or to secure repayment of the Loan and payment of the Loan Payments.

Single Employer Plan:

"Single Employer Plan" means any Plan that is not a Multiemployer Plan.

Sinking Fund:

"Sinking Fund" shall mean the trust fund created and established by Section 5.01.

State:

"State" shall mean the State of Rhode Island and Providence Plantations.

Subsidiary(ies):

"Subsidiary(ies)" means any Person, if any, of which more than fifty percent (50%) of the outstanding Equity Interests having ordinary voting power to elect a majority of the board of directors or other managers of such Person (irrespective of whether or not at the time Equity Interests of any other class or classes of such Person shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by Obligor or its Equity Owners or by Obligor, its Equity Owners and/or one or more Subsidiaries or the management of which Person is under control of Obligor, its Equity Owners and/or any other Subsidiary, directly or indirectly through one or more other Persons.

Supplemental Agreement:

"Supplemental Agreement" shall mean any agreement supplemental hereto or amendatory hereof, adopted by the Corporation in accordance with Article IX.

Treasury Rate:

"Treasury Rate" means, with respect to any redemption date for a particular Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two (2) Business Days, but not more than forty-five (45) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds to be redeemed, provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Trust Estate:

"Trust Estate" shall mean:

(i) The right of the Corporation to receive Loan Payments under the Agreement and amounts pertaining to Trustee, Paying Agent and Bond Registrar fees and expenses under Section 8.04 of the Agreement and, after and during the continuation of any default under the Agreement, to bring actions and proceedings thereunder to collect Loan Payments or for the enforcement of the Corporation's right to receive payments in respect of the Loan Payments, and to do any and all things which the Corporation is or may become entitled to do under this Agreement with respect to the foregoing, including the exercise of those rights and remedies set forth in the Security Documents between the Corporation and the Obligor, as same may be amended after the date hereof, the right to receive proceeds from the disposition of property realized under the Security Documents and the rights of the Corporation to Gross Receipts.

(ii) All funds, moneys and securities from time to time held by the Trustee under the terms of the Agreement and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Corporation or by the Obligor or by anyone in their behalf, or with their written consent to Trustee which is authorized by the Agreement to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

(iii) All rights of the Corporation to payments under the Agreement with respect to all amounts under Section 8.04 of this Agreement to the extent and only to the extent related to Trustee, Paying Agent and Bond Registrar fees and expenses.

(iv) All rights of the Corporation with respect to property and amounts received under and pursuant to the Security Documents.

Trustee:

"Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., and its successor or successors hereafter appointed in the manner provided in the Agreement.

LOAN OF BOND PROCEEDS; THE ASSIGNMENT, PLEDGE AND GRANT OF SECURITY INTERESTS

Loan of Bond Proceeds. The Issuer shall issue the Bonds pursuant to the Act and the Job Creation Guaranty Program Act in the amount, in the form and with the terms provided in the Agreement, and shall loan to the Obligor such amounts to finance the EDC Project as provided in the Agreement (the "Loan"). The Obligor agrees to repay the Loan

in the amounts and at the times necessary to pay principal of, premium, if any, and interest on the Bonds by making the payments required under Section 2.06A of the Agreement. (Section 2.01A)

Assignment and Pledge of the Issuer. The Issuer, for consideration paid assigns and pledges to the Trustee in trust for the security of the Bondholders all the Issuer's right, title and interest (i) in respect of the Loan and all payments thereon, (ii) in all moneys and securities held by the Trustee for deposit in, or deposited in, the Project Fund, the Sinking Fund, the Capitalized Interest Fund and the Capital Reserve Fund and investment earnings thereon, (iii) the Trust Estate, and (iv) in any collateral security for, and all proceeds of, any of the foregoing. The Trustee shall hold (1) all the rights, title and interest received and (2) all revenues exclusive of funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise received from the Obligor or derived from the exercise of the Issuer's powers hereunder (which shall include all payments under Subsection 2.06A(a) in trust for the security of the Bondholders in accordance with the provisions of the Agreement). (Section 2.02A)

Further Assurances. The Issuer shall from time to time execute and Obligor and the Trustee shall from time to time execute, deliver and record and file such instruments as the Trustee may reasonably require to confirm, perfect or maintain the security created under the Agreement and the assignment and pledge of rights under the Agreement. (Section 2.03A)

Pledge of Gross Receipts. Grant of Security Interest and Security Agreement. As security for the payments to be made under the Agreement, the Obligor pledges and grants a security interest in the Trust Estate and in all Gross Receipts to the Issuer and the Trustee. The Obligor agrees that the security interest granted by it to the Issuer is assigned by the Issuer to the Trustee. It is the intention of the parties hereto that the Agreement shall constitute a security agreement within the meaning of the UCC and with respect to the Trust Estate and the Gross Receipts and proceeds thereof (the "Collateral"), and that a security interest shall attach thereto for the benefit of the Trustee to secure the obligations secured under the Agreement, and all other sums and charges which may become due hereunder or thereunder. (Section 2.04A)

Defeasance. When there are in the Sinking Fund, the Capitalized Interest Fund and the Capital Reserve Fund sufficient funds, or noncallable and non-prepayable Government Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide, without reinvestment, sufficient funds to pay the principal of, premium, if any, and interest on the Bonds in full as and when such amounts become due, and when all the rights under the Agreement of the Issuer (including the right to receive payments under Section 2.06A(b) and of the Trustee and their respective directors, officers, employees and agents have been paid or provided for to the satisfaction of the Issuer and the Trustee including but not limited to, the payment of all Loan Payments, required under the Agreement and when the Trustee has received written evidence from the applicable rating agencies that no reduction or withdrawal of the rating of the Bonds

shall occur as a result of the defeasance to occur as set forth in (1), (2) and (3) following, then (1) the Bondholders will cease to be entitled to any right, benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights set forth below or which rights by their nature cannot be satisfied prior to or simultaneously with termination of the lien under the Agreement, (2) the security interests created by the Agreement (except in such funds and investments) shall terminate, and (3) the Issuer and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interest created hereunder. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose. The Trustee shall cause to be mailed to all Bondholders for redemption of Bonds within fifteen (15) days of the conditions of this section being met a notice stating that such conditions have been met and that the lien of the Agreement has been discharged, and, if the Bonds are to be redeemed prior to maturity, specifying the date of redemption and the redemption price. Any funds or property held by the Trustee for payment of the Bonds under this section and not required for such payment shall (unless there is an Event of Default hereunder, in which case they shall be applied as provided in Section 7.04, after satisfaction of all the rights of the Issuer and the Trustee and their respective directors, officers, employees and agents (as certified in writing by the Issuer and the Trustee, respectively), and upon such indemnification, if any, as the Issuer or the Trustee may reasonably require, be distributed as provided in Section 5.10. If Bonds are not presented for final payment when due and moneys are available in the hands of the Trustee therefor, the Trustee shall, without liability for interest thereon, continue to hold the moneys held for that purpose subject to the escheat laws of the State, and interest shall cease to accrue on the principal amount represented thereby.

Notwithstanding the foregoing, those provisions relating to the maturity of the Bonds, interest payments and dates thereof, and the Trustee's remedies with respect thereto, and provisions relating to exchange, transfer and registration of Bonds, replacement and cancellation of Bonds, the holding of moneys in trust and the duties of the Trustee in connection with all of the foregoing, the payment by the Obligor of the fees, expenses and indemnities of the Trustee and the Issuer and their respective directors, officers, employees and agents, shall remain in full force and effect and shall be binding upon the Trustee, the Issuer, the Obligor and the Bondholders notwithstanding the release and discharge of this Agreement until the Bonds have been actually paid in full. Defeasance shall not be effective unless and until the Corporation shall have received from an independent verification agent a verification report satisfactory to the Corporation verifying that the Government Obligations in the Capitalized Interest Fund, the Capital Reserve Fund and the Sinking Fund are sufficient for defeasance. The Corporation may, in its sole discretion, waive the requirement of a verification agent. (Section 2.05A)

Payments by the Obligor.

(a) Payments of Debt Service by the Obligor.

(i) The Obligor shall make Loan Payments to the Trustee for deposit in the Principal and Interest Account of the Sinking Fund as defined in the Agreement so that there will be available in immediately available funds no later than 12:00 Noon time thirty (30) days prior to each November 1 and May 1 the amount necessary to pay the interest, principal and redemption premium, if any, due or coming due on the Bonds. In order to effectuate the intent and purposes of the prior sentence, the Obligor shall, commencing November 1, 2012 and, on the first day of each month thereafter, pay to the Trustee a Loan Payment equal to one sixth (1/6) of the interest due on the Bonds for the next succeeding Interest Payment Date (May 1 and November 1 of each year) and, commencing November 1, 2013, one twelfth (1/12) of the sinking fund installment due on the Bonds for the next succeeding November 1 when the next sinking fund installment payment shall be due.

(ii) At any time when any principal payment of the Bonds is overdue, the Obligor shall also have a continuing obligation to pay to the Trustee for deposit in the Sinking Fund an amount equal to interest on the overdue principal but the installment payments required under this section shall not otherwise bear interest. Redemption premiums shall not bear interest.

(iii) In any event the Loan Payments shall be sufficient to pay the total principal of, premium, if any, and interest on the Bonds as and when due. If at any time when said payments are due the balance in the Sinking Fund available for said purpose is insufficient to make such Loan Payments, the Obligor will forthwith pay to the Trustee (in immediately available funds) any such deficiency. The Obligor shall not be required to make any Loan Payment to the extent its application would result in an excess in the Sinking Fund over the amounts necessary to meet its obligations when due and payable plus any additional amounts then required to be maintained in the Sinking Fund.

(b) Additional Payments by the Obligor.

(i) The Obligor shall pay the Corporation on demand for reimbursement of any and all costs, expenses and liabilities reasonably paid or incurred by the Corporation, including reasonable fees of counsel and disbursements thereof, in satisfaction of any obligations of the Obligor not performed by the Obligor as required hereunder.

(ii) The Obligor shall pay the Corporation on the Date of Issuance of the Bonds the Corporation's Commitment Fee of $375,000 (one half of one percent of the principal amount of the 2010 Bonds). On each May 1 and on the same date of each year thereafter, the Obligor shall pay the Annual Guaranty Fee of the Corporation equal to one and one-half of one percent (1.50%) per annum of the average amount of Outstanding Bonds for the applicable period in arrears (deducting therefrom any amount in the Prepayment Account) for so long as the Bonds are Outstanding. The Annual Guaranty Fee may be pro-rated for any period less than one full year.

(iii) The Obligor shall pay the Corporation on demand for reimbursement or prepayment of any and all costs, expenses and liabilities paid or incurred or to be paid or incurred by the Corporation including, but not limited to, any amounts due from the Issuer to the Insurer pursuant to the provisions of Article X of the Agreement or any of its directors, officers, employees or agents, including reasonable fees of counsel and disbursements thereof, and requested by the Obligor or required by this Agreement or required by the Act with respect to the Bonds or the Project.

(iv) The Obligor shall pay the Corporation on each June 30 a Deferred Fee as follows:

Starting in 2014, based upon the Obligor's audited GAAP financial statements of the prior year (2013), the Obligor shall pay annually to the Corporation on June 30 of each year, a deferred fee equal to twenty-five (25%) of its Excess Operating Income up to an amount not to exceed $5.0 million per year until an aggregate Deferred Fee amount of $15,250,000 has been paid. If the $15,250,000 aggregate deferred fee has not been achieved by the year ending 2017, the aggregate Deferred Fee shall be increased to $18,800,000. In the event the Deferred Fee has not been paid in full when the bonds become due in full, then the unpaid balance of the Deferred Fee shall be due when the bonds become due regardless of the company's Excess Operating Income. "Excess Operating Income" shall be the fiscal year operating income of the Obligor as contained in its audited GAAP financial statements less the fiscal year's Operating Income for the same year contained in the Obligor's six year financial projection furnished to the Corporation which shall be that financial projection previously furnished by Obligor to the Corporation and certified as authentic by a writing between the Corporation and the Obligor of even date with the Date of Issuance. For purposes of calculating Excess Operating Income for any year after 2015, the Operating Income figure for 2015 shall be deemed to be the same figure for fiscal years 2016, 2017, 2018, 2019 and 2020.

(v) The Obligor shall pay the Trustee on demand for reimbursement or prepayment of any and all fees, costs, expenses and liabilities paid or incurred or to be paid or incurred by the Trustee, including reasonable fees of counsel and disbursements thereof, in the performance of its duties hereunder. (Section 2.06A)

AUTHORIZATION, TERMS AND ISSUANCE OF BONDS

Authorization for Agreement and Bonds. (1). The Agreement is made and entered into by virtue of and pursuant to the provisions of the Act and the Job Creation Guaranty Program Act.

(2). The 2010 Series Bonds are authorized to be issued subject to the terms and conditions established of the Agreement. All Bonds shall be entitled to the benefit of the

continuing pledge and lien created by the Agreement to secure the full and final payment of the principal, or Redemption Price, if any, thereof and the interest thereon.

(3). The Bonds shall be special obligations of the Corporation, payable solely out of the revenues or other receipts, funds or moneys pledged therefor pursuant to the Agreement.

Neither the State nor any municipality thereof shall be obligated to pay the principal or Redemption Price of or the interest on the Bonds, and neither the faith and credit nor the taxing power of the State or any such municipality is pledged to pay such principal, Redemption Price or the premium, if any, or interest. The Bonds and the interest coupons appertaining thereto, if any, shall never constitute a debt or liability of the State or any such municipality or bonds issued or guaranteed by the State or any municipality within the meaning of any constitutional or statutory limitation. (Section 2.01)

Issuance of the 2010 Series Bonds. (a). There shall be issued under and secured by the Agreement a series of Bonds to be designated "Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010" in the aggregate principal amount of $75,000,000. The 2010 Series Bonds shall be issuable in registered form, shall be dated as of November 2, 2010, shall bear interest from November 2, 2010 at the rate of six and 00/100 percent (6.00%) per annum as to the 2015 Term Bond, at the rate of six and 75/100 percent (6.75%) per annum, as to the 2016 Serial Bond and at the rate of seven and 75/100 percent (7.75%) per annum as to the 2020 Term Bond, payable semiannually on November 1 and May 1 in each year, commencing May 1, 2011, in the years indicated and provided for in the form of the Bond in the granting clauses of the Agreement.

(b). The principal and Redemption Price, if any, of and interest on the 2010 Series Bonds, as they respectively become due, shall be payable at the principal office of The Bank of New York Mellon Trust Company, N.A., Providence, Rhode Island or other office designated by the Trustee.

(c). The 2010 Series Bonds shall be subject to redemption prior to maturity at the option of the Corporation at any time that an Event of Default has occurred or otherwise upon the mutual agreement of the Corporation and the Obligor up to and including November 1, 2020, that the Bonds are Outstanding upon at least forty-five (45) days advance written notice from the Corporation to the Trustee of such redemption in accordance with the provisions of this Agreement (to the maximum extent permitted by applicable law, the Corporation and the Trustee by written consent may waive or abbreviate the forty-five (45) day notice requirement provided, however, that the thirty (30) day advance notice requirement to Bondholders for redemption in Article III shall not be waived or be abbreviated, such Bonds to be selected by the Trustee by lot at any time at

the Redemption Price, in each case with Eligible Funds (provided that the portion of the Redemption Price constituting premium need not be Eligible Funds) equal to the greater of:

(i) the issue price of the Bonds (but not less than 100% of the principal amount) of such Bonds to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Bonds are to be redeemed, discounted to the date on which such Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus thirty-five (35) basis points, in each case, accrued interest on such Bonds to be redeemed to the redemption date;

provided, however, that on and after November 2, 2019, the Bonds may be redeemed at any time at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date thereof.

(d) The 2015 Term Bonds shall be subject to mandatory sinking fund redemption through sinking fund installments by lot or in any customary manner of selection on November 1 of each year, commencing November 1, 2013 at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date thereof in the principal amounts shown below:

Year	Amount
2013	$ 7,440,000
2014	$ 7,885,000
2015*	$ 8,360,000

The 2020 Term Bonds shall be subject to mandatory sinking fund redemption through sinking fund installments by lot or in any customary manner of selection on November 1 of each year, commencing November 1, 2017 at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date thereof in the principal amount shown below.

2017	$ 9,455,000
2018	$10,190,000
2019	$10,980,000
2020**	$11,830,000

* Maturity
** Final Maturity

(A 2016 Serial Bond matures and is payable in 2016 in the amount of $8,860,000).

(e) The 2010 Series Bonds are subject to mandatory redemption, in part, to the extent any proceeds of the 2010 Series Bonds remaining on deposit and unexpended in the Project fund after the elapse of thirty-six (36) months following the Date of Issuance of the 2010 Series Bonds. The foregoing redemption must take place within ninety (90) days of the elapse of the foregoing thirty-six (36) month period. The 2010 Series A Bonds to be redeemed shall be selected by lot in the customary manner and shall be redeemed at a redemption price equal to the principal amount of the 2010 Series Bonds to be redeemed plus accrued interest thereon to the redemption date.

(f). The 2010 Series Bonds shall be numbered from one upward in such order as the Trustee shall determine in each case with the letter "R" preceding the number.

(g). All computations relating to calculation of interest on principal or Redemption Price for the 2010 Series Bonds shall be made on the basis of a year consisting of 360 days and a month consisting of thirty (30) days. (Section 2.02)

Form; Denominations; Numbers; Medium of Payment. (1) The 2010 Series Bonds will be issued in fully registered form numbered R-1 upwards as two (2) term bonds each maturing November 1, 2015 and November 1, 2020 respectively and a serial bond maturing November 1, 2016 and issued in minimum denominations of $100,000.00 and increments in excess thereof of $5,000.00 not exceeding in the aggregate the principal amount of Bonds of the same series, maturity and interest rate of the Bond for which the denomination is to be specified. Any Additional Bonds will be issued in duly registered form in such denominations as may be set forth in the Supplemental Agreement authorizing such Additional Bonds. Subject to the provisions of subsection (2) hereof the Bonds shall be in substantially the form set forth in the recitals to this Agreement, with such variations, omissions and insertions as are permitted or required by this Agreement.

(2) Each Bond shall contain on the face thereof a statement to the effect that neither the State nor any municipality thereof shall be obligated to pay the same nor the interest thereon and that neither the faith and credit nor the taxing or taking power of the State or any municipality thereof is pledged to the payment of the principal thereof or the interest or premium, if any, thereon. The Bonds may in addition contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Agreement as may be necessary or desirable to comply with custom or otherwise as may be determined by the Corporation prior to the delivery thereof.

(3) The principal and Redemption Price, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts.

(4) Subject to the provisions hereof, the Bonds shall be dated, shall mature in such years and such amounts, shall be numbered, shall bear interest at such rate or rates per annum, shall be subject to redemption on such terms and conditions and shall be payable as to principal, interest, and Redemption Price at such place or places as shall be specified, in the case of the 2010 Series Bonds, in this Agreement and, in the case of a series of Additional Bonds, in the resolution or proceedings of the Corporation authorizing the issuance of such series of Additional Bonds. No 2010 Series Bonds, or Bonds of the same series of Additional Bonds, maturing in any particular year shall bear interest at other than a single rate per annum. (Section 2.05)

Ownership; Interchangeability. The Corporation and the Trustee may deem and treat the person in whose name any registered Bond shall be registered upon the books of the Corporation as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if any, of and interest on such Bond and for all other purposes, and such payments so made to any such registered owner as of the Record Date or upon this order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Corporation nor the Trustee shall be affected by any notice to the contrary.

Each registered Bond shall be transferable only upon the books of the Corporation, which shall be kept for the purpose at the principal office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. The Bonds are transferrable subject to the restrictions contained in the form of Bond with respect to certain securities law registration and applicable law requirements. Upon the transfer of any such registered Bond the Corporation shall issue in the name of the transferee a new registered Bond of the same aggregate principal amount and maturity as the surrendered Bond.

In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the Corporation shall execute and the Trustee shall authenticate and deliver the Bonds in accordance with the provisions of this Agreement.

The Corporation and the Trustee may charge any Bondholder for the privilege of exchanging Bonds or transferring registered Bonds, in an amount sufficient to reimburse the Corporation and the Trustee for any tax, fee, expenses or governmental charge or expense required to be paid with respect thereto which charge or charges shall be paid by the person requesting such registration or transfer; provided, however, that such registration or transfer fee shall be reasonable in amount and the Corporation shall not charge any Bondholder an amount in excess of expenses incurred by it by reason of such registration or transfer. (Section 2.08)

Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Corporation shall execute, and thereupon the

Trustee shall authenticate and deliver, a new Bond of like maturity and principal amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee of evidence satisfactory to it that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Corporation and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Trustee may prescribe and paying such expenses as they may incur. All Bonds so surrendered to the Trustee shall be canceled by it. Any such substitute Bond issued in exchange for other Bonds may be issued in typewritten form. (Section 2.09)

Additional Bonds. (1) So long as (i) this Agreement is in effect and (ii) the amount on deposit in the Capital Reserve Fund (prior to the issuance of such Additional Bonds) is not less than the Minimum Capital Reserve Fund Requirement (prior to issuing such Additional Bonds), the Corporation may, in its sole discretion, but without any obligation to do so, except to the extent otherwise specifically set forth herein, issue one or more series of Additional Bonds which may be issued by the Corporation and authenticated and delivered upon original issuance for the purposes of refunding the Series 2010 Bonds. Such Additional Bonds shall be payable from the Trust Estate including, but not limited to, Gross Receipts, revenues and the Loan Payments and other property derived or to be derived by the Corporation under this Agreement or from the funds established under this Agreement or other disposition of the EDC Project.

(2) Each Series of Additional Bonds issued shall be equally and ratably secured under the Agreement with the 2010 Series Bonds and all other series of Additional Bonds, if any, issued, without preference, priority or distinction of any Bonds over any other thereof except as otherwise set forth herein. (Section 2.10)

REDEMPTION OF BONDS

Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of the same series and maturity, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee in authorized denominations. (Section 3.02)

Notice of Redemption. When redemption is required by the Agreement, following notice given by the Corporation to the Trustee pursuant to Section 2.02(C) of this Agreement, the Trustee shall give notice of such redemption in the name of the Corporation, specifying the amounts (installments, if applicable) of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any maturity are to be redeemed, the numbers of such Bonds or portions thereof so to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to the redemption date, and that from and after such date interest thereon

shall cease to accrue and be payable. The Trustee in the name and on behalf of the Corporation shall publish notice by sending a copy of each such notice to the registered owner of each Bond selected for redemption by certified mail, postage prepaid, addressed to him at his last known address as it appears upon the Bond register not later than thirty (30) days prior to the date fixed for redemption. (Section 3.03)

Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 3.03, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. If, on the redemption date, Eligible Funds for the redemption of all the Bonds or portions thereof to be redeemed (provided the portion of the Redemption Price constituting premium need not be Eligible Funds), together with interest to the redemption date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Payment of the Redemption Price and interest shall be made to or upon the order of the registered owner, but in each case only upon surrender of the Bonds. (Section 3.04)

CUSTODY AND APPLICATION OF PROCEEDS OF BONDS

Capitalized Interest Fund. There is created under the Agreement and established with the Trustee a special trust fund to be designated “The Rhode Island Economic Development Corporation, 38 Studios, LLC, Capitalized Interest Fund.” From proceeds of sale and delivery of the Bonds there shall be deposited in the Capitalized Interest Fund, the Capitalized Interest Amount. (Section 4.02)

Application of the Capitalized Interest Fund. The Trustee shall apply the amounts in the Capitalized Interest fund to the amounts necessary to pay interest on the Bonds for those Interest Payment Dates commencing May 1, 2011 through and including November 1, 2012. (Section 4.03)

Project Fund. There is created under the Agreement and established with the Trustee a special trust fund to be designated "The Rhode Island Economic Development Corporation, 38 Studios, LLC Project Fund". The balance of the proceeds of the Bonds remaining, after the deposits required by Section 4.02 and Section 5.04 hereof have been made, shall be deposited in the Project Fund. (Section 4.04)

Application of Project Fund. (a) The Trustee shall, consistent with the requirements of the Agreement, apply the amounts in the Project Fund to the amounts necessary to pay

for the EDC Project Costs excluding therefrom investment earnings transferred pursuant to Section 5.06 hereof. (Section 4.05)

(b) The Trustee is authorized and directed to issue its checks for each disbursement from the Project Fund to the Obligor upon a requisition in the form required by the Agreement.

The requisitions shall be paid in accordance with the following schedule and are further subject to the following requirements and conditions precedent:

(i) upon the delivery of and the Date of Issuance of the Bonds: $10,939,759; and after the date when Obligor or a letter of credit bank selected by Obligor presents reasonable documentary evidence to the Corporation that the $2,060,241 letter of credit required in connection with Obligor's execution of that Lease dated as of September 20, 2010 is to be issued subject only to the funding of a deposit account at such letter of credit bank securing such letter of credit, an additional $2,060,241 which may, in the discretion of the Corporation, be directly disbursed to an account at such letter of credit bank;

(ii) upon the public announcement by the Obligor of a relocation date to Rhode Island, estimated to be by January 31, 2010: $9,400,000 (subject to the delivery of such announcement in a writing to the Corporation in form and substance reasonably satisfactory to the Corporation);

(iii) upon the relocation of Obligor's headquarters and the current project Copernicus studio to Rhode Island, and the creation of at least 80 Full Time Jobs in Rhode Island with an average annual wage not less than $67,500 per year, estimated to be by April 15, 2011 (such relocation date being subject to (i) Date of Issuance of the Bonds and closing by October 7, 2010); (ii) the relocation of the Obligor's headquarters and studio to Rhode Island occurring within six months of the closing and Date of Issuance of the Bonds (the Obligor may extend such relocation by three periods of 30 days each due to delays in landlord's completion of the Obligor's new offices, with each such extension subject to the written administrative approval of the RIEDC, which approval shall not be unreasonably withheld or delayed): $17,200,000;

(iv) upon the creation by the Obligor of an additional 45 Full Time Jobs in Rhode Island with an average annual wage not less than $67,500 per year estimated to be by November 2, 2011: $4,200,000 (subject to three periods by 30 days each in (iii) above);

(v) upon the entry by the Obligor into a satisfactory distribution agreement for its Project Copernicus estimated to be by November 30, 2011: $4,100,000; and

(vi) upon the creation by the Obligor of at least an additional 125 Full Time Jobs in Rhode Island with an average annual wage of not less than $67,500 per year estimated to be by January 31, 2012: the balance of the net proceeds.

Evidence of the creation of Full Time Jobs with an average annual wage of not less than $67,500 per year shall be presumed upon the filing of a Certificate of the Chief Financial Officer of the Obligor and the Chairperson of the Obligor's Audit Committee in form and substance reasonably satisfactory to the Corporation, that such Full Time Jobs with such average annual wage are established on the Obligor's State Payroll. The foregoing presumption may be rebutted by an audit of such payroll figures as provided for in 6.01A(e) of this Agreement. (Section 4.05)

Investment of Project Fund. Investments of amounts in the Project Fund shall be made in accordance with Section 5.06 of the Agreement and mature in such amounts and not later than such times as may be necessary to provide funds when needed to make payments from such Fund and shall be made by the Trustee only at the written request of an Authorized Representative of both of the Corporation and the Obligor.

REVENUE AND FUNDS

Creation of Sinking Fund. The Corporation establishes with the Trustee a special trust fund to be designated "The Rhode Island Economic Development Corporation, 38 Studios, LLC Project Sinking Fund". The Trustee shall establish three separate accounts within the Sinking Fund to be respectively designated "Principal and Interest Account", "Redemption Account" and the " Prepayment Account". (Section 5.01)

Payments into Sinking Fund. The Trustee shall promptly deposit the following receipts in the Sinking Fund:

(a) Loan Payments received by the Trustee pursuant to the Agreement, which shall be credited to the Principal and Interest Account and disbursed, in the manner set forth in the Agreement, together with amounts available in the Principal and Interest Account, to pay (i) the interest due on the Outstanding Bonds on the Interest Payment Date next succeeding such Loan Payment and (ii) the principal, if any, of the Outstanding Bonds due (otherwise than by call for redemption) on such Interest Payment Date.

(b) Amounts consisting of prepayment of Loan Payments payable under the Agreement, which amounts shall be credited to the Prepayment Account.

(c) Net income or gain received and collected from investments of amounts in the Principal and Interest Account of the Sinking Fund, the Project Fund, the Capitalized Interest Fund and the Capital Reserve Fund

shall be credited to the Principal and Interest Account pursuant to Section 5.06.

(d) Amounts required to be paid to the Sinking Fund for payment of principal and interest due on the Bonds which shall be credited to the Principal and Interest Account.

(e) Excess amounts in the Capital Reserve Fund which may be deposited from time to time in the Sinking Fund pursuant to Section 5.05, which shall be credited to the Principal and Interest Account; and

(f) All other receipts when and if required by this Agreement to be paid into the Sinking Fund, which shall be credited (except as provided in Section 7.04) to the Redemption Account. (Section 5.02)

Application of Sinking Fund. (a.) There shall be paid from the Principal and Interest Account in the Sinking Fund to the Paying Agent not later than one business day prior to each interest payment date for the Bonds the amounts required for the payment of the principal and interest due on the Bonds on such date. Such amounts shall be applied by the Paying Agent to the payment of said principal and interest when due. (Section 5.03)

Creation of Capital Reserve Fund. (a.) The Corporation establishes a special trust fund to be designated "Rhode Island Economic Development Corporation, 38 Studios, LLC Project Capital Reserve Fund" which shall be held by the Trustee pursuant to the terms of the Agreement. From the proceeds of the sale and delivery of the Bonds there shall be deposited in the Capital Reserve Fund an amount equal to the Minimum Capital Reserve Fund Requirement. In addition, there shall be deposited into the Capital Reserve Fund any amount appropriated for the Capital Reserve Fund for the Bonds by the General Assembly of the State pursuant to Section 5.04(b) and pursuant to the Certificate of the Executive Director of the Corporation made and delivered pursuant to subparagraph (b.) of Section 5.04. If funds in the Sinking Fund are ever insufficient to pay the principal of, Redemption Price, if any, and interest on the Bonds when due, funds sufficient therefor shall be transferred by the Trustee to the Sinking Fund from the Capital Reserve Fund. At maturity, the balance of the Capital Reserve Fund will be used to pay the final sinking fund installments due to the Bondholders of the 2010 Bonds.

(b.) The Executive Director of the Corporation (the "Executive Director") shall annually, on or before December 1st of each year beginning in 2010, make and deliver to the Governor of the State a certificate (the "Certificate") stating the sum, if any, required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement first taking into account available monies, if any, then on deposit in a reserve fund established by the Corporation pursuant to the Job Creation Guaranty Program Act, pursuant to which no less than fifty percent (50%) of program receipts of the Corporation including guaranty fees and other amounts are to be credited (the “Program Account”). No later than December 1, 2010 and no later than December 1 of each year thereafter, so long as any

Bonds are Outstanding, the Executive Director shall deliver to the Governor of the State the Certificate stating the sum, if any, required to restore the Capital Reserve Fund first taking into account available monies, if any, then on deposit in the Program Account to the Minimum Capital Reserve Fund Requirement based upon the amount then on deposit in the Capital Reserve Fund (which the Trustee shall verify to the Corporation as of December 1 of each year) as of such December 1. In determining the value of any investments held in the Capital Reserve Fund, the Trustee shall disregard any value in excess of the par value of any investment. The Corporation shall furnish the Trustee with a copy of such Certificate as soon as practicable. Should the Obligor fail to make additional Loan Payments subsequent to the Executive Director's delivery of the Certificate on each December 1, the Executive Director shall update by an amended Certificate delivered to the Governor and the Budget Office on the 15th day of each month thereafter, the additional sum needed to restore the Capital Reserve Fund, such updates to be delivered through the next succeeding June 30. In the event any Loan Payments required to be made by the Obligor are not received by the Trustee subsequent to November 1 of each year, the Executive Director shall deliver a Certificate to the Governor asking the Governor to request that the General Assembly make a supplemental budget appropriation for the full amount of the May 1 payment next due.

(c.) If it is determined by the Trustee on any interest payment date that the funds as of such date then on deposit in the Capital Reserve Fund exceed the Minimum Capital Reserve Fund Requirement (disregarding the value of any investments in the Capital Reserve Fund in excess of par value) the Trustee may, after receiving written approval of the Corporation to do so, credit to the Principal and Interest Account in accordance with Section 5.02(f) all or any portion of the amount of money then on deposit in the Capital Reserve Fund which is determined to be in excess of the Minimum Capital Reserve Fund Requirement. Notwithstanding the provisions of Rhode Island General Law 42-64-18, as amended from time to time, the Corporation shall not transfer funds from the Capital Reserve Fund to other funds or accounts of the Corporation excepting only to funds established under and pursuant to this Agreement.

(d.) On November 30 of each year, commencing November 30, 2011, in the event the funds in the Principal and Interest Account of the Sinking Fund are then less than the amount necessary to pay the full amount of the scheduled principal and interest payments due on the 2010 Series Bonds on the next succeeding May 1, all remaining funds in the Capital Reserve Fund shall be transferred by the Trustee from the Capital Reserve Fund to the Principal and Interest Account of the Sinking Fund. (Section 5.04)

Deposits Sufficient to Retire Bonds. If at any time the aggregate of the amounts then on deposit in the Sinking Fund, the Capitalized Interest Fund and the Capital Reserve Fund is sufficient to pay when due the principal of and interest and Redemption Price, as applicable, on the Bonds remaining outstanding and amounts due the Corporation and the Trustee under this Agreement, including, but not limited to amounts paid pursuant to Section 2.05A of the Agreement, the Trustee shall notify the Corporation that no additional or further payments need be made under the Agreement, and the Trustee shall apply the

moneys then in the Sinking Fund, the Capitalized Interest Fund and the Capital Reserve Fund to the payment of the principal of and interest and Redemption Price, as applicable, on the Bonds as they mature and to the payment of the amounts, if any, payable to itself as Trustee and payable to the Corporation. (Section 5.05)

Investment of Project Fund, Sinking Fund and Capital Reserve Fund (a.) Amounts in the Project Fund, the Sinking Fund, the Capitalized Interest Fund and the Capital Reserve Fund may, if and to the extent then permitted by law, be invested at the direction of the Corporation in (i) bonds, treasury notes and other evidences of indebtedness of, and those unconditionally guaranteed as to the payment of principal and interest by, the State of Rhode Island or the United States of America, (ii) bonds and notes of the Federal National Mortgage Association, (iii) bonds and notes of Federal Home Loan Banks, (iv) certificates of deposit and time deposits and any other investments, to the extent then permitted by law for the Trustee, of its trust funds provided that any such certificates and investments be fully secured by obligations mentioned in (i) through (iv) or (v) Cash Equivalent Investments. The Trustee may make any and all such investments through its own offices only upon the Corporation providing written direction to the Trustee to make such investments. The Trustee shall not be responsible for any losses on investments made in compliance with written direction from the Corporation. Amounts in the Sinking Fund may not be invested in investments having a maturity date later than one day before the debt service payment date for which such amounts are being held.

(b.) Net income or gain received and collected from investments of amounts in the Sinking Fund, the Project Fund, the Capitalized Interest Fund and the Capital Reserve Fund (but only to the extent that the amount in the Capital Reserve Fund is not reduced below the amount of the Minimum Capital Reserve Fund Requirement) shall first be applied by the Trustee to the reasonable fees and expenses then due and payable to the Trustee, Paying Agent and Bond Registrar as a consequence of the carrying out of its obligations under this Agreement and the balance, if any, to be credited to the Principal and Interest Account in accordance with Section 5.02(c). (Section 5.06)

PARTICULAR COVENANTS OF THE OBLIGOR

Affirmative Covenants of Obligor Other than Reporting Requirements. From the date of the Agreement and thereafter for so long as any portion of the Loan is outstanding, or Obligor is indebted to the Corporation under the Agreement or any of the Security Documents, Obligor will (unless the Corporation shall otherwise consent in writing):

(a) Payment of Taxes, etc. Pay and discharge all taxes and assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims for the same which, if unpaid, might become a Lien upon any of its properties, provided that (unless and until foreclosure, restraint, sale or any similar proceeding shall have been commenced) Obligor shall not be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by proper proceedings and

for which proper reserve acceptable to the Corporation or other provision acceptable to the Corporation has been made in accordance with GAAP.

(b) Maintenance and Insurance of Properties. Do or cause to be done all things necessary to preserve, renew, and keep in full force and effect its rights and Permits and comply with all Applicable Laws; at all times maintain, preserve, and protect all property (real, personal, tangible or intangible or otherwise) used in the conduct of its business and keep its properties and all of its fixtures and equipment and other personal property in good repair, working order and condition, and in accordance with the Security Documents, and from time to time make, or cause to be made, all needful and proper repairs, renewals, replacements, betterments, and improvements thereto, so that in its reasonable judgment, its business may be carried on advantageously; and at all times maintain adequate insurance coverage of its properties including, but not limited to, its fixtures and equipment and other personal property with financially sound and reputable insurance companies against all risks, including fire and other risks insured against by extended coverage (in the full insurable value of its properties subject to commercially reasonable deductibles and co-insurance requirements) and maintain liability and such other insurance as is customarily maintained on properties of the type owned or leased by it in reasonable amounts.

(c) Preservation of Existence, etc. Preserve and maintain in full force and effect its limited liability company existence and that of its subsidiaries and Affiliates, rights, franchises and privileges in the jurisdiction of its organization, and preserve and maintain all Intangible Property that is necessary or, in its reasonable business judgment, desirable in view of its business and operations or the ownership of its properties provided, however, that Obligor or Obligor and one or more of its Affiliates and/or Subsidiaries may convert its organizational structure to a Subchapter C corporation under the Code and also create a wholly-owned subsidiary organized under the laws of the State subject, in each case, however, to the written consent of the Corporation which written consent shall not be unreasonably conditioned, delayed or withheld and further subject to the execution by Obligor of such instruments, documents and papers as the Corporation may, in its discretion, require to preserve the Corporation's rights and maintain the Obligor's obligations under this Agreement and instruments, documents and papers executed in connection therewith including, but not limited to, with respect to the Security Documents.

(d) Compliance with Laws, etc. Comply in all material respects with all Applicable Laws.

(e) Inspections of Records and Properties. Permit, during normal business hours upon at least forty-eight (48) hours advance notice, the Corporation or any agents or representatives of the Corporation, to (i) examine and make copies of and abstracts from its records and books of account or those of any Subsidiary, (ii) visit its properties or those of any Subsidiary and (iii) discuss the affairs, finances and accounts of Obligor or any Subsidiary with any of their officers or employees and/or any independent certified public accountant of Obligor or any Subsidiary. Without limiting the generality of the foregoing, the Corporation may, at its option, conduct audits and field examination reviews on the

books and records of Obligor with the cost of all such examinations and related expenses to be borne by Obligor, provided, however, that in the absence of the occurrence of an event of default, such audits and field examination reviews shall not occur more than once per fiscal year of the State.

(f) Keeping of Records and Books of Account. Keep adequate records and books of account, in which complete entries reflecting all financial transactions will be made in accordance with GAAP and with applicable requirements of any Governmental Authority.

(g) Notice with Respect to Proceedings. Give prompt written notice to the Corporation of any proceedings instituted by any Person against any one or more of Obligor and Guarantor with any Governmental Authority, which, if adversely determined, could have a material adverse effect upon Obligor's business, operations, properties, assets or condition, financial or otherwise.

(h) Accounting System. Maintain a standard system of accounting in accordance with GAAP and in accordance with the requirements of any Governmental Authority, if applicable.

(i) Other Documents, etc. Pay, perform and fulfill all of its obligations and covenants under each of the Security Documents and any other material document, instrument or agreement to which it is a party in accordance with their respective terms, giving effect to any grace periods therein specified unless such payment, performance or fulfillment would not be permitted hereunder; provided, that with respect to documents, instruments and agreements other than documents with or in favor of the Corporation, so long as Obligor is diligently contesting in good faith any alleged failure to pay, perform and fulfill such obligations and covenants by proper proceedings and has made any proper reserve or other provision in accordance with GAAP on account thereof and such alleged failure has not resulted in any material adverse effect on Obligor or any Subsidiary or on the Corporation's interests under this Agreement or the Security Documents, Obligor shall not be deemed in violation of this §5.01(i).

(j) Purpose. Use the proceeds of the Bonds solely for the EDC Project and Costs of Issuance.

(k) Additional Assurances. From time to time hereafter, execute and deliver or cause to be executed and delivered, such certificates and documents and take all such actions as the Corporation shall reasonably request for the purpose of implementing or effectuating the provisions of this Agreement and the Security Documents, and upon the exercise by the Corporation of any power, right, privilege or remedy pursuant to the Loan Documents which requires any consent, approval, registration, qualification or authorization of any Governmental Authority, exercise and deliver all applications, certifications, instruments and other documents and papers that the Corporation may be so required to obtain, including execution and filing of UCC-1 financing statements in any state or

jurisdiction in which Obligor may obtain or own property or equipment or machinery subsequent to the date of this Agreement.

(l) Third Party Monitoring. Fully cooperate with the implementation of a third party monitoring, reporting and response process regarding the development schedule and budget for Project Copernicus to assure that the Obligor's development of Project Copernicus remains on time and on budget. The third party monitor will be [ ] and the process will generally consist of those provisions set forth in a Monitoring Agreement dated the Date of Issuance by and between Obligor and the Corporation.

(m) Obligor and/or a wholly-owned Subsidiary of Obligor organized under the laws of the State will provide the following number of Full Time Jobs in Rhode Island within the following time periods:

(i) 125 Full Time Jobs in the State with an average annual wage of not less than $67,500 per year within twelve (12) months of the bond closing (hereinafter and for each of the periods referenced in (ii) and (iii) below, the "Jobs Period");

(ii) an additional 175 Full Time Jobs in the State with an average annual wage of not less than $67,500 per year within twenty-four (24) months of the Date of Issuance of the Bonds;

(iii) an additional 150 Full Time Jobs in the State with an average annual wage of not less than $67,500 per year within thirty-six (36) months of the Date of Issuance of the Bonds;

(iv) Should Obligor fail to meet any Full Time Jobs requirement in (i) through (iii) above, it shall pay annually to the RIEDC an amount equal to $7,500 per year for each Full Time Job with an average annual wage of at least $67,500 not so added until such shortfall is cured, with payments commencing March 31, 2012 for the Jobs Period in calendar year 2011 and annually for each Jobs Period thereafter in which the goals of (i), (ii) and (iii) above are not achieved on each March 31 thereafter so long as the Bonds are outstanding, for the preceding Jobs Period in each calendar year.

(v) Obligor will provide, commencing January 31 of each year commencing January 31, 2012 (for the Jobs Period occurring in the prior calendar year), written certification that the Obligor has met the requirements of (i), (ii) and (iii) above stating the total number of Full Time Jobs with an average annual wage of not less than $67,500 per year provided for the applicable Jobs Period in each calendar year and shall also include a certification of the calculations of the

"Minimum Equity Requirement" and the "Excess Equity Balance Available for Dividend Distribution to Equity Holder referenced in Section 6.02A(p) as well as "Excess Operating Income" referenced in Section 2.06A(b)(ii) which shall be provided by June 30 of each year for the preceding year. The foregoing calculations shall be performed by the Obligor and such calculations shall be certified by independent certified public accountants selected by Obligor and reasonably acceptable to the Issuer subject to agreed upon procedures reasonably acceptable to the Issuer. The Issuer may, once per year, retain its own independent certified public accountants to audit the foregoing calculations and certifications at the sole cost and expense of the Obligor and the Obligor and Obligor's Affiliates agree to fully cooperate in any such audit. In connection with any such audit, records of the Rhode Island Division of Taxation and the Rhode Island Department of Labor and Training shall be deemed to be relevant, probative and entitled to a presumption of accuracy. Obligor and Obligor's Affiliates hereby waive any confidentiality rights, with respect to the Corporation only and not with respect to the State's public record laws, it or they may have under State and/or federal law with respect to any information in the possession and/or control of the Rhode Island Division of Taxation and/or the Rhode Island Department of Labor and Training and hereby agree that the Corporation's auditors shall be permitted to obtain any and all such information from the Rhode Island Division of Taxation and/or the Rhode Island Department of Labor and Training, including but not limited to such data as the Corporation's auditors deem necessary or desirable to audit and/or confirm Obligor's certifications hereunder. Obligor and its Affiliates agree to execute such documents as may be required by the Rhode Island Division of Taxation and/or the Rhode Island Department of Labor and Training to evidence Obligor's waiver of confidentiality, with respect to the Corporation only and not with respect to the State's public record laws. The reporting requirements of this Section 6.01A(m) shall survive payment in full, redemption or defeasance of the Bonds prior to November 1, 2020 and shall be in effect through January 31, 2021.

(n) Obligor will develop internship programs for students at design and educational institutions in the State pursuant to programs and policies to be agreed upon with such institutions.

(o) Relocation. Relocate and maintain for a period of at least ten (10) years from the Date of Issuance of the Bonds, the corporate headquarters and principal place of business of the Obligor to the State within six (6) months of the Date of Issuance and closing of the Bonds subject to an extension of said six (6) month period for those periods

of thirty (30) days each due to delay in landlord's completion of the Obligor's new offices in the State, with each such extension being subject to the written, administrative approval of Issuer which approval shall not be unreasonably withheld, conditioned or delayed and upon relocating the Obligor to Rhode Island, the Obligor shall not relocate the Obligor or any substantial portion of its operations outside of Rhode Island (it being agreed that such a relocation would be an event of default) in which case the Obligor's obligations with respect to this Agreement, the then remaining Loan Payments and the Bonds would become immediately due and payable, including without limitation any balances due to the Bonds, any costs and expenses of the Issuer incurred with respect to the Bonds that have not already been reimbursed or paid for, and an acceleration of the job penalty fees owed to the Issuer pursuant to paragraph (m)(iv) above for the balance of the term of the Bonds provided, however, that Obligor may without incurring an event of default (i) optionally redeem the Bonds as provided for in Section 2.02(c) or (ii) defease the Bonds as provided for in Section 2.05A and in the event of a redemption or defeasance as set forth in (i) or (ii), Obligor takes the following additional actions:

(a) immediately upon such redemption or defeasance pay in full all sums due the Corporation pursuant to Section 2.06A(b)(i) and (iii);

(b) immediately upon such redemption or defeasance pay in full the Annual Guaranty Fees required by Section 2.06A(b)(ii) which Obligor would have been obligated to pay had the Bonds not been redeemed or defeased but were left outstanding until November 1, 2020;

(c) immediately upon such redemption ior defeasance pay in full all of the remaining and unpaid Deferred Fee of $15,250,000 or, in the event of a redemption or defeasance after 2017, $18,800,000 as required under Section 2.06A(b)(iv);

(d) immediatey upon such redemption or defeasance pay in full to the Trustee all amounts set forth in Section 2.06(A)(V); and

(e) immediately upon such redemption or defeasance pay an amount equal to those payments set forth in Section 6.01A(m)(iv) of $7,500 for each remaining Jobs Period or portion thereof from the date of such redemption or defeasance until November 1, 2020 for which Full Time Jobs with an average annual wage of not less than $67,500 are not maintained.

This Section 6.01(A)(o) shall, notwithstanding anything else contained in this Agreement, survive the payment of the Loan or the payment of indebtedness due under this Agreement or the Security Agreements.

(p) Execution and Delivery to Corporation of Valid Lease. At least eight (8) days prior to the execution of a Bond Purchase Agreement for the sale of the Bonds, execute

and deliver a certified as authentic copy of Obligor's lease of office space in the State sufficient to house at least the number of employees contemplated to be employed by Obligor in the State as set forth in this Agreement satisfactory to the Corporation in its sole discretion having a term or an original term and sufficient renewal terms extending to at least November 1, 2020, reflecting the payment and delivery of a reasonable and customary deposit for the relocation transaction contemplated by this Agreement (e.g. collateral assignment capability to the Corporation, and other customary terms).

(q) Reasonable Best Efforts. Use reasonable best efforts to maximize Obligor's utilization of vendors located in Rhode Island; cooperate with the State of Rhode Island and the Corporation in its economic development efforts with respect to video game, digital media and interactive media industry development in Rhode Island and the creation of employment in related industries in Rhode Island. (Section 6.01A)

Negative Covenants of Obligor. From the date of the Agreement and thereafter for so long as any portion of the Bonds are Outstanding or Obligor is indebted to the Corporation under the Agreement or with respect to the Loan Obligor will not, and will not cause or permit any Guarantor or Subsidiary or Affiliate to (without the prior written consent of the Corporation):

(a) Liens, etc. Create, incur, assume or suffer to exist any Lien of any nature, upon or with respect to any of its properties, now owned or hereafter acquired, or assign as collateral or otherwise convey as collateral, any right to receive income, except that the foregoing restrictions shall not apply to any Liens:

(i) for taxes, assessments or governmental charges or levies on property if the same shall not at the time be delinquent or thereafter can be paid without penalty or interest, or (if foreclosure, distraint, sale or other similar proceedings shall not have been commenced) are being diligently contested in good faith by appropriate proceedings and for which proper cash reserve acceptable to the Corporation has been made;

(ii) imposed by law, such as carriers', warehousemen's and mechanic's Liens, banker's setoff rights and other similar Liens arising in the ordinary course of business for sums not yet due or being diligently contested in good faith by appropriate proceedings and for which proper cash reserve acceptable to the Corporation has been made;

(iii) arising in the ordinary course of business out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(iv) those existing as of the date hereof in favor of City National Bank with respect to the financing of that project known as "Mercury"; and

(v) those now or hereafter granted pursuant to the Security Documents or otherwise now or hereafter granted to the Corporation as collateral for the Loan and obligations under Obligor's other obligations arising in connection with or under this Agreement.

(b) Assumptions, Guaranties, etc., of Indebtedness of Other Persons. Assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligation or Indebtedness of any other Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(c) Dissolution, etc. Dissolve, liquidate, wind up, merge or consolidate with another Person or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or a substantial part of its assets (whether now owned or hereafter acquired), or any of its or their interests in real property.

(d) Change in Nature of Business. Make any material change in the nature of its business.

(e) Ownership and Management. Cause or permit any change in its executive management without prior to implementing any such change, notifying the Corporation of such change, if practicable, or otherwise, within forty-eight hours thereafter furnishing written notice thereof to the Corporation and promptly replacing the executive manager and furnishing the Corporation with a copy of the resolution upon which such action was based prior to implementing such action, if practicable, or otherwise within forty-eight hours after adopting such resolution and as soon as practicable thereafter furnishing to the Corporation a copy of the minutes of the meeting at which such action was taken.

(f) Sale and Leaseback. Enter into any sale and leaseback arrangement with any Person.

(g) Sale of Accounts, etc. Sell, assign, discount or dispose in any way of any Accounts Receivable, promissory notes or trade acceptances held by Obligor with or without recourse.

(h) Indebtedness. Incur, create, become or be liable directly or indirectly in any manner with respect to or permit to exist any Indebtedness except:

(i) Indebtedness under this Agreement or any of the Loan Documents or other Indebtedness to the Corporation;

(ii) Indebtedness with respect to trade obligations and other normal accruals in the ordinary course of business not yet due and payable in accordance with customary trade terms or which Obligor is diligently contesting in good faith

the amount or validity thereof by appropriate proceedings and then only to the extent Obligor has set aside on its books adequate cash reserves acceptable to the Corporation therefor; and

(iii) Indebtedness with respect to equipment leases secured solely by the equipment financed and purchase-money financings secured solely by the property financed.

(i) Other Agreements. Amend any of the terms or conditions of any indenture, agreement, document, note or other instrument evidencing, securing or relating to Indebtedness permitted hereunder, unless such amendment would not have a material adverse effect on Obligor or its ability to comply with its obligations under this Agreement and the other Security Documents.

(j) Prepayment of Other Indebtedness. Make any prepayment of any principal of or interest on, or any prepayment, redemption, defeasance, sinking fund payment, other repayment of principal or deposit with respect to any Indebtedness permitted hereunder, except any repayment that (i) is made during such time as no event of default shall exist; (ii) does not cause any event of default; (iii) does not have a material adverse effect on Obligor's ability to comply with its obligations under this Agreement and the other Security Documents; and (iv) is only made with proceeds of additional equity infusion into Obligor (not Bond Proceeds) or Excess Operating Income generated by Obligor.

(k) Investments in or to Other Persons. Take or commit to make any Investment in or to any other Person other than (i) advances to employees for reasonable and usual business expenses, (ii) investments in accounts, contract rights and chattel paper (as defined in the Uniform Commercial Code of the State) and notes receivable, arising or acquired in the ordinary course of business, and (iii) investments by Subsidiaries in Obligor.

(l) Change of Fiscal Year. Change its fiscal year, which fiscal year ends December 31st of each year without the prior written consent of the Corporation which consent shall not be unreasonably withheld, conditioned or delayed.

(m) Subordination of Claims. Subordinate or permit to be subordinated any present or future claim against or obligation of another Person, except as ordered in a bankruptcy or similar creditors' remedy proceeding of such other Person.

(n) Compliance. With respect to Obligor and each Commonly Controlled Entity, (i) terminate, or cease to have an obligation to contribute to, any Multiemployer Plan so as to result in any material liability of Obligor or any Commonly Controlled Entity to PBGC or to any Multiemployer Plan, (ii) engage in any "prohibited transaction" (as defined in Section 4975 of the Code) involving any Plan that would result in a material liability of Obligor or any Commonly Controlled Entity for an excise tax or civil penalty in connection therewith, (iii) incur or suffer to exist any material "accumulated funding deficiency" (as defined in

Section 302 of ERISA and Sections 412 and/or 418 of the Code) of any Obligor or any Commonly Controlled Entity, whether or not waived, involving any Single Employer Plan, (iv) incur or suffer to exist any Reportable Event or the appointment of a trustee or institution of proceedings for appointment of a trustee for any Single Employer Plan if, in the case of a Reportable Event, same continues unremedied for ten (10) days after notice of such Reportable Event pursuant to Section 4043(a), (c) or (d) of ERISA is given, if in the reasonable opinion of the Corporation any of the foregoing is likely to result in a material liability of Obligor or any Commonly Controlled Entity, (v) allow or suffer to exist any event or condition, which presents a material risk of incurring a material liability of Obligor or any Commonly Controlled Entity to PBGC by reason of termination of any such Plan, or (vi) cause or permit any Plan maintained by Obligor and/or any Commonly Controlled Entity to be out of compliance with ERISA and/or Title X of the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended. For purposes of this Section 5.02(P) "material liability" shall be deemed to mean any liability of Fifty Thousand and 00/100 Dollars ($50,000.00) or more in the aggregate.

(o) Change of Name, Etc. Change its name, state of organization or principal place of business to other than the State of Rhode Island.

(p) Distributions. Make dividend payments, member distributions or other distributions to members or equity holders, except for distributions to cover income taxes or to cover the cost of repurchasing equity interests of members under a right of first refusal (provided that any repurchases of equity interests under any right of first refusal shall: (1) be made only from Excess Operating Income; (2) be made only after Deferred Fees owed to the Corporation are paid; (3) not exceed $2,000,000 in the aggregate during the term of the bonds for equity holders other than Mr. Schilling or his family; and (4) the company shall not redeem or purchase any of Mr. Schilling's or his immediate family's equity or ownership interest in the company whether held in trust for any of the foregoing or otherwise), after satisfying a Minimum Equity Requirement, as defined in the next sentence. The dollar amount of the "Minimum Equity Requirement" shall mean the outstanding principal balance on the bonds minus any amounts reserved in or paid to the Corporation to the Prepayment Account. The "Excess Equity Balance Available for Dividend or Distribution to Equity Holders" shall mean that amount calculated from the Company's GAAP financial statements and calculated as total equity contributions plus total additional paid-in-capital plus the fiscal year 2011 and forward years amounts recorded by the company to retained earnings (loss) less the Minimum Equity Requirement. If any payment of the Excess Equity Balance Available for Dividend or Distribution to Equity Holders is paid out, it shall be paid out as 50% of the amount going to equity holders and 50% being paid to the Corporation to be placed in the Prepayment Account. In the event that the Obligor does not declare a dividend or make distributions but has Excess Equity Balance Available for Dividend or Distribution to Equity Holders, then 25% of the Excess Equity Balance Available for Dividend or Distribution to Equity Holders shall be deposited in the Prepayment Account. All investment earnings on the Prepayment Account may be used by the Obligor toward the next Bond payment due from the Obligor, and the principal shall accumulate and be applied toward the final payment

due on the Bonds when it becomes due. In the event the principal balance of the Prepayment Account equals the sum of all remaining payments due on the Bonds, at that time, the Obligor may prepay the balance of the Deferred Fee at an amount discounted to the then present value of the balance of the Deferred Fee owed by the Obligor to the Corporation.

(q) Loans to Officers, Directors and Employees. Make any loan, directly or indirectly, to any officer or employee of Obligor or any Guarantor, Affiliate or Subsidiary except in accord with this Section 6.02A(q). Such loans to Officers and Employees shall be limited to matters of hardship and for relocation expenses incident to employment with Obligor. All such loans shall not, in the aggregate, exceed One Million Five Hundred Thousand and 00/100 Dollars ($1,500,000.00) and shall not in the case of hardship loans exceed Ten Thousand and 00/100 Dollars ($10,000.00) to any one individual and in the case of relocation loans shall not exceed Sixty Thousand and 00/100 Dollars ($60,000.00) to any one individual. Loans shall not be available to directors of Obligor. All such loans shall be pursued as to repayment using all legal remedies reasonably available to Obligor including, but not limited to, deduction from bonuses and compensation. Relocation loans shall be limited to those for relocation within twenty (20) miles of Providence. The repayment term of such loans shall be limited to one (1) year in the case of hardship loans and five (5) years in the case of relocation loans. No loans hereunder shall be available to Curt Schilling.

(r) Assignment and Assumption. Assign or attempt to have another assume Obligor's obligations under this Agreement or the Security Documents without the express written consent of the Issuer which consent shall not be unreasonably withheld.

(s) Compensation Restrictions. Implement compensation to officers, employees or independent contractors inconsistent with compensation generally implemented in the interactive entertainment industry; and further provided that compensation in any form to Curt Schilling shall be for services actually rendered, within standards generally implemented in the interactive entertainment industry and capped at amounts to be agreed upon in writing in advance between Obligor and Issuer.

(t) Maynard Massachusetts Lease. Pay or cause to be paid on and after the date hereof, using, directly or indirectly, proceeds of the Bonds any lease, rental or other payment due or to become due in respect of that Commercial Lease dated October 13, 2006 by and between Obligor and Wellesley/Rosewood Maynard Mills Limited Partnership, as amended from time to time (the "Maynard Lease"), other than monthly lease or monthly rental payments due after the date hereof and for and through the month following the relocation of Obligor's corporate headquarters and primary place of business to the State as provided for in Section 6.01A(o) hereof. Obligor shall furnish evidence, satisfactory to the Corporation in its sole discretion, of the existence of liquid funds ("Liquid Funds") in the amount of One Million Five Hundred Thousand and 00/100 Dollars ($1,500,000) other than Bond proceeds available to make all payments due under the Maynard Lease accruing beyond the date which is one month following the relocation of Obligor's corporate

headquarters and primary place of business to Rhode Island no later than the date which is eight (8) days prior to the execution of a Bond Purchase Agreement for the sale of the Bonds. In the event Obligor hereafter receives capital funds in the form of additional equity infusion into Obligor in sufficient amount to pay the remaining Maynard Lease payments or in the event Obligor generates Excess Operating Income in sufficient amount to pay the remaining Maynard Lease payments, the requirement that Obligor maintain Liquid Funds shall be terminated.

(u) Motion Picture Production Tax Credits. Apply for, take actions to obtain or otherwise avail itself of any tax credit whether through a Subsidiary or an Affiliate, directly or indirectly under Rhode Island General Law 44-31.2-5, the "Motion Picture Production Tax Credit", as amended from time to time, until such time as one of the following conditions are met:

(i) Obligor has expended all of the proceeds of the 2010 Bonds deposited to the Project Fund and written certification of such expenditure is made by the Obligor to the Corporation which certification shall be subject to audit by the Corporation by independent auditors selected by the Corporation, the expense of which shall be borne by the Obligor; or

(ii) the Obligor receives additional capital, independent of the proceeds of the 2010 Bonds, the receipt of which independent capital is subject to verification and certification in writing by the Obligor and audit of same by the Corporation acting through independent auditors selected by the Corporation, the expense of which shall be borne by the Obligor and the "State certified production cost," as defined in Rhode Island General Law 44-31.2-2, is equal to or less than the additional capital received by Obligor and Obligor demonstrates such independent capital was expended on the State certified production cost. Obligor agrees to execute and deliver such Waiver Forms of the Rhode Island Division of Taxation as are consistent with the provisions hereof. (Section 6.02A); or

(iii) the Obligor's "State certified production cost," as defined in Rhode Island General Law 44-31.2-2, for the annual period is greater than amounts utilized from the Project Fund for the annual period, the calculation of which is subject to verification and certification in writing by the Obligor and audit of same by the Corporation acting through independent auditors selected by the Corporation, the expense of which shall be borne by the Obligor.

Obligor agrees to execute and deliver such Waiver of Confidentiality forms of the Rhode Island Division of Taxation as are consistent with the provisions hereof.

Obligor agrees that in no event shall Obligor apply for, take action to obtain or otherwise avail itself of any tax credit whether through a Subsidiary or Affiliate, directly or indirectly, at any time while an event of default or Obligor Default exists. (Section 6.02A)

Reporting Requirements. From the date of the Agreement and thereafter for so long as any portion of the Loan or the Bonds are Outstanding or Obligor is indebted to the Corporation under this Agreement, or any of the Security Documents, Obligor will, unless the Corporation shall otherwise consent in writing, furnish or cause to be furnished to the Corporation the following, all of which shall be in form and substance satisfactory to the Corporation:

(a) As soon as possible and in any event upon acquiring knowledge of a Loan Event of Default, continuing on the date of such statement, a written statement setting forth details of such an Event of Default and the action which Obligor proposes to take with respect thereto;

(b) As soon as practicable after the end of each fiscal year of Obligor and in any event within one hundred eighty (180) days thereafter, financial statements prepared on a combined basis for Obligor and its Affiliates and Subsidiaries as of the end of such year to be prepared on an audited basis by a firm of independent certified public accountants selected by Obligor and reasonably acceptable to the Corporation and management prepared statements within one hundred twenty (120) days;

(c) Within thirty (30) days after each month's end, financial statements prepared for Obligor in form satisfactory to the Corporation for the month then ending as well as for the same month of the preceding year, including, but not limited to, a balance sheet, income statement year-to-date financial results;

(d) Within forty-five (45) days after the beginning of each fiscal year, an income statement and balance sheet projecting operations for such fiscal year, prepared and certified to by Obligor's treasurer or Chief Financial Officer;

(e) Within one hundred twenty (120) days after the end of each fiscal year of Obligor a complete listing of Full Time Jobs with an average annual wage of not less than $67,500 per year created in the State by Obligor as of the end of such fiscal year.

(f) Such other information respecting the business, properties or the condition or operations, financial or otherwise, of Obligor or any Guarantor as the Loan may from time to time reasonably request; and

(g) Prompt written notice of any material adverse change in Obligor's or any Guarantor's conditions, financial or otherwise, and an explanation thereof and of the actions Obligor proposes to take with respect thereto. (Section 6.03A)

PARTICULAR COVENANTS OF THE CORPORATION

Corporation's Obligation Not to Create a General Liability. Each and every covenant made in the Agreement, is predicated upon the condition that any obligation for the payment of money incurred by the Corporation, including the Bonds, shall not constitute nor give rise to a pecuniary liability or a charge against its general credit, but shall be payable solely out of the revenues or other receipts, funds or moneys of the Corporation specifically pledged to the payment thereof in the manner and to the extent in this Agreement specified and nothing in the Bonds or in the Agreement shall be considered as pledging any other revenues, receipts, funds, moneys or assets of the Corporation. (Section 6.01)

Payment of Principal, Redemption Price, Premium, if any, and Interest. The Corporation covenants that it will, solely from the revenues, receipts, funds or moneys derived from the Agreement or from the Capital Reserve Fund or otherwise from the Trust Estate designated under the granting clauses of the Agreement, promptly pay the principal of, Redemption Price, and interest on, every Bond issued under this Agreement, at the place, or the dates and in the manner provided herein and in said Bonds according to the true intent and meaning thereof. (Section 6.02)

REMEDIES OF BONDHOLDERS AND THE CORPORATION

Events of Default; Acceleration of Due Date. (a). Each of the following events is hereby defined as and shall constitute an "event of default":

(i) Default in the due and punctual payment of the interest on any Bond.

(ii) Default in the due and punctual payment of the principal or Redemption Price of any Bonds, whether at the stated maturity thereof or upon proceedings for redemption thereof.

(iii) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Corporation in this Agreement or in the Bonds contained and the continuance thereof for a period of 30 days after written notice given by the Trustee or by the Holders of not less than 25% of the principal amount of Bonds then Outstanding.

(b). Upon the happening and during the continuance of any event of default specified in clause (i) or (ii) of subsection (a) of this Section, unless the principal of all the Bonds shall have already become due and payable, the Trustee may, or on the written request of the Holders of not less than 25% in the principal amount of the Bonds Outstanding shall (by thirty (30) days' notice in writing to the Corporation and the Governor of the State) declare the principal of the Bonds then Outstanding, the Redemption Price

due, if any, and the interest accrued thereon to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything in this Agreement or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest upon the Bonds and the principal of all Bonds which shall have become due by reason of maturity or call for redemption, together with the reasonable and proper charges, expenses and liabilities of the Trustee, shall either be paid by or for the account of the Corporation or provision satisfactory to the Trustee shall be made for such payment, then any such event of default and its consequences shall ipso facto be deemed to be annulled, but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon. (Section 7.01)

Enforcement of Remedies. (a). Upon the happening and continuance of any event of default as defined in Section 7.01, then and in every case the Trustee may proceed, and upon the written request of the Holders of not less than 25% in the principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds, and this Agreement forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in this Agreement or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies, including the right to require the Corporation to collect any Loan payments and interest and principal repayments to require the Corporation to account as if it were the Trustee of an express trust for the holders of the Bonds or to enjoin any acts or things which may be unlawful or in violation of the Holders of the Bonds.

(b). In the enforcement of any rights or remedy under this Agreement or under the Act, the Trustee shall be entitled to sue for, enforce payment on and receive any or all amounts then or during any event of default becoming, and any time remaining, due from the Corporation for principal, Redemption Price, interest, or otherwise under any of the provisions of this Agreement or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under this Agreement and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Corporation, but solely as provided in this Agreement and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the Sinking Fund, the Project Fund, the Capital Reserve Fund, the Appropriation Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

(c). Regardless of the happening of any event of default, the Trustee, if requested in writing by the Holders of not less than 25% in the principal amount of the Bonds then Outstanding and furnished with adequate security and indemnity against the costs, expenses, and liabilities to be incurred, shall institute and maintain such suits and

proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under this Agreement by any acts which may be unlawful or in violation of the Agreement or of any resolution authorizing Bonds, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders; provided, that such request shall not be otherwise than in accordance with the provisions of law and of this Agreement and shall not be unduly prejudicial to the interests of the Holders of Bonds not making such request. (Section 7.02)

Appointment of Receiver. Upon the occurrence and during the continuation of an event of default as defined in Section 7.01 specified in clause (i) or (ii) of subsection 2 of Section 7.01, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Agreement, the Trustee shall be entitled to the appointment of a receiver to administer the EDC Project on behalf of the Corporation, with power to charge and collect Loan payments in accordance with this Agreement sufficient to provide for the payment of the principal, interest and Redemption Price on the Bonds then Outstanding, for the payment of operating expenses and Trustee's fees and expenses, and to apply the income and revenue in conformity with the Act and this Agreement. (Section 7.03)

Application of Revenues and Other Moneys after Default. (a.) All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances (including attorneys fees) incurred or made by the Trustee, be deposited in the Sinking Fund and all moneys so deposited in such Fund and available for payment of the Bonds shall be applied, after first deducting fees and expenses of the Trustee then due and payable, as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First - To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Second - To the payment to the persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of the Bonds or principal installments which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Agreement), in the order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which they became due and, if

the amount available shall not be sufficient to pay in full Bonds or principal installments due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege.

(ii) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amount due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as set forth in Section 12.03 hereof.

(b.) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder or any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(c.) Whenever all Bonds and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Trustee, Bondholders and Paying Agents have been paid, any balance remaining in the Sinking Fund shall be paid at the written direction of the Corporation in accordance with the provisions of Section 5.10 of this Agreement. (Section 7.04)

Majority Bondholders Control Proceedings. Anything in this Agreement to the contrary notwithstanding, the Holders of a majority in aggregate principal amounts of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Agreement, or for the appointment of a receiver or any other proceedings hereunder, provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Agreement. (Section 7.06)

Individual Bondholder Action Restricted. No holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Agreement or the execution of any trust under this Agreement or for any remedy under this Agreement, unless such Holder shall have previously given to the

Trustee written notice of the happening of an event of default, as provided in this Article, and the Holders of at least 25% in the principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity to exercise the powers granted in this Agreement or by the Act or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by this Agreement, or to enforce any right under this Agreement, except in the manner therein provided; and that any proceeding at law or in equity available to the Trustee or to the Holders of the Bonds is not intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. (Section 7.07)

Effect of Discontinuance of Proceedings. In case any proceedings taken by the Trustee on account of any event of default shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Corporation, the Trustee, and Bondholders shall be restored, respectively, to their former positions and rights hereunder, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceedings had been taken. (Section 7.08)

Remedies Not Exclusive. No remedy by the terms of the Agreement conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute including but not limited to, those found in Rhode Island General Laws 42-64-25. (Section 7.09)

Delay or Omission. No delay or omission of the Trustee or of any Holder of the Bonds in exercising any right or power arising upon any default shall impair any right or power or shall be construed to be a waiver of any such event of default or an acquiescence therein; and every power and remedy given by this Article to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders. (Section 7.10)

Notice of Event of Default. The Trustee shall promptly mail to registered Holders of Bonds, written notice of the occurrence of any event of default. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail any notice required by this Section. (Section 7.11)

Waivers of Events of Default. The Trustee shall waive any event of default hereunder and its consequences upon the written request of the Holders of one-half in

aggregate principal amount of all the Bonds then Outstanding; provided however, that there shall not be waived without the consent of the Holders of all the Bonds Outstanding (a) any event of default in the payment of the principal of any Outstanding Bonds at the date of maturity specified therein or (b) any event of default in the payment when due of the interest on any such Bonds unless, prior to such waiver, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest in respect of which such event of default shall have occurred, or all arrears of payments or principal when due, as the case may be, and all expenses of the Trustee in connection with such event of default shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Corporation, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder respectively, but no such waiver shall extend to any subsequent or other event of default, or impair any right consequent thereon. (Section 7.12)

Obligor Defaults.

(a) Obligor Defaults. The following events shall constitute "Obligor Defaults":

(i) Default in the due and punctual payment of any Loan Payments due from Obligor; and

(ii) Default in the performance and observance of any other of the covenants, agreements, or conditions on the part of the Obligor in this Agreement contained and the continuance thereof for a period of thirty (30) days after written notice by the Corporation to the Obligor.

(b) Upon the happening and following the continuance thereof for in excess of thirty (30) days of any Obligor Default, the Corporation may declare all remaining Loan Payments due and payable immediately anything in this Agreement to the contrary notwithstanding. In addition to the foregoing, the Corporation in its sole discretion may declare any Obligor Default, an "event of default" under Section 7.01 hereof with the same effect and subject to the same remedies available for such events of default. The Corporation shall have available to it all remedies at law or in equity with respect to any Obligor Default. (Section 7.13)

TRUSTEE, PAYING AGENT AND BOND REGISTRAR

Appointment and Acceptance of Duties. The Trustee is also appointed Paying Agent and Bond Registrar for the Bonds. (Section 8.01)

Indemnity. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Agreement, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution

of the trusts created under the Agreement or in the enforcement of any rights and powers under the Agreement, until it shall be indemnified to its satisfaction against any and all reasonable costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, gross negligence or bad faith. The Trustee shall have the right to obtain indemnity prior to taking action. (Section 8.02)

Compensation. The Trustee, Paying Agent and Bond Registrar shall be entitled to receive and collect from the Obligor as and to the extent provided in the Agreement and to receive and collect from other sources provided for in the Agreement payment for reasonable fees for services rendered and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee, Paying Agent or Bond Registrar in connection therewith. (Section 8.04)

Resignation or Removal of Trustee. (a.) The Trustee may resign and thereby become discharged from the trusts created under the Agreement by notice in writing to be given to the Corporation and by notice to each Holder of the Bonds, not less than 60 days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a successor Trustee, pursuant to Section 8.08, if such successor Trustee shall be appointed before the time specified by such notice and shall accept such trusts.

(b.) The Trustee may be removed at any time by an instrument or concurrent instrument in writing, filed with the Trustee and signed by the Holders of not less than a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized. The Trustee shall promptly give notice of such filing to the Corporation. (Section 8.07)

Successor Trustee. (a.) If at any time the Trustee shall resign, or shall be removed, be dissolved or otherwise become incapable of acting or shall be adjudged a bankrupt or insolvent, of if a receiver, liquidator or conservator thereof, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Corporation shall appoint a successor Trustee to fill such vacancy. Within 20 days after such appointment, the Corporation shall cause notice of such appointment to be mailed by certified mail to the Owners of the Bonds as set forth in the bond registry.

(b.) At any time within one year after any such vacancy shall have occurred, the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Bondholders or their respective attorneys-in-fact thereunto duly authorized and filed with the Corporation, may appoint a successor Trustee, which shall immediately and without further act, supersede any Trustee theretofore appointed. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section, the Holder of any Bond then Outstanding, or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor

Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(c.) Any Trustee appointed under this Section shall be a national banking association or a bank or trust company duly organized under the laws of any State of the United States authorized to exercise corporate trust powers. At the time of its appointment, any successor Trustee shall have a capital stock and surplus aggregating not less than $50,000,000. (Section 8.08)

AMENDMENTS OF AGREEMENT

Limitation on Modifications. The Agreement shall not be modified or amended in any respect except as indicated below. (Section 9.01)

Supplemental Agreements without Bondholders' Consent. (1.) The Corporation may, from time to time and at any time, adopt Supplemental Agreements without consent of the Bondholders as follows:

(a) To cure any formal defect, omission or ambiguity in the Agreement or in any description of property subject to the lien thereof, if such action is not adverse to the interests of the Bondholders; or

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Agreement as heretofore in effect; or

(c) To add to the covenants and agreements of the Corporation in the Agreement, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Agreement as theretofore in effect or adverse to the interests of the Bondholders; or

(d) To add to the limitations and restrictions in the Agreement, other notations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Agreement or theretofore in effect; or

(e) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Agreement, of the revenues or Loan Payments from or in connection with the EDC Project or of any other moneys, securities of funds, or to subject to the lien or pledge of the Agreement additional revenues, properties or collateral; or

(f) To provide for the issuance of Additional Bonds to the extent provided in Section 2.10(1) of this Agreement; or

(g) To effectuate any other change, amendment or revision which in the opinion of the Trustee is not adverse to the interests of the Bondholders.

(2.) Before the Corporation shall adopt any Supplemental Agreement, there shall have been filed with the Trustee an opinion of counsel satisfactory to the Trustee stating that such Supplemental Agreement is authorized or permitted by the Agreement and complies with the terms, and that upon enactment it will be valid and binding upon the Corporation in accordance with its terms. (Section 9.02)

Supplemental Agreements with Bondholders' Consent. (1.) Subject to the terms and provisions contained in this Article and except as provided in Section 2.10 of this Agreement, and not otherwise, the Holders of not less than 66 2/3% in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time, to consent to and approve the adoption by the Corporation of any Supplemental Agreement as shall be deemed necessary, or desirable by the Corporation for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Agreement; provided, however, that nothing herein contained shall permit, or be construed as permitting, (i) a change in the terms of redemption or maturity of the principal of or the interest on any Outstanding Bond, or a reduction in the principal amount or Redemption Price of any Outstanding Bond or the rate of interest thereon, without the consent of the holder of such Bond, or (ii) the creation of a lien upon or pledge of revenues from or in connection with the EDC Project ranking prior to the lien or pledge created by the Agreement or (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as provided in Section 12.03 or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Agreement.

(b.) If at any time the Corporation shall determine to adopt any Supplemental Agreement for any of the purposes of this Section it shall cause notice of the proposed Supplemental Agreement to be mailed, postage prepaid, to all registered Bondholders. Such notice shall briefly set forth the nature of the proposed Supplemental Agreement and shall state that a copy thereof is on file at the offices of the Trustee for inspection by all bondholders.

(c.) Within one year after the date of the first notice, the Corporation may adopt such Supplemental Agreements in substantially the form described in such notice only if there shall have first been filed with the Corporation (a) the written consents of Holders of not less than 66 2/3% in aggregate principal amount of the Bonds then Outstanding and (b) the opinion of counsel satisfactory to the Trustee stating that such Supplemental Agreement is authorized or permitted by the Agreement and complies with the terms, and that upon adoption it will be valid and binding upon the Corporation in accordance with its terms. Each valid consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given. A certificate or certificates by the Trustee that it has examined such proof is sufficient in accordance with this Agreement shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent

shall be binding upon the Holder of the Bonds giving such consent and upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee prior to the adoption of such Supplemental Agreement.

(d.) If the Holders of not less than the percentage of Bonds required by this Section shall have consented to and approved the execution thereof as herein provided, no Holder of any Bonds shall have any right to object to the enactment of such Supplemental Agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Corporation from adopting the same or from taking any action pursuant to the provisions thereof.

(e.) Upon the adoption of any Supplemental Agreement pursuant to the provisions of this Section, this Agreement shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Agreement of the Corporation, the Trustee and all Holders of Bonds then Outstanding shall thereafter be determined, exercised and enforced under this Agreement, subject in all respects to such modifications and amendments. (Section 9.03)

Supplemental Agreement Part of the Agreement. Any Supplemental Agreement adopted shall thereafter form a part of the Agreement; and all the terms and conditions contained in any such Supplemental Agreement as to any provisions authorized to be contained therein shall be and shall be deemed to be part of the terms and conditions of the Agreement for any and all purposes. The Trustee shall execute any Supplemental Agreement adopted in accordance with the provisions of Section 9.02 or 9.03.(Section 9.04)

PROVISIONS RELATING TO BOND INSURANCE

Scope of Provisions. The following provisions shall govern, notwithstanding anything to the contrary set forth in the Agreement.

Capital Reserve Fund Provisions. The prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Capital Reserve Fund. Notwithstanding anything to the contrary set forth in the Agreement, amounts on deposit in the Capital Reserve Fund shall be applied solely to the payment of debt service due on the Bonds.

Deemed Holder. The Insurer shall be deemed to be the sole holder of the 2010 Series Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by

it are entitled to take pursuant to any section or article of the Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee for so long as the Insurance Policy is outstanding and the Insurer has honored its obligation thereunder and is not in default of any of its obligations thereunder. Remedies granted to the Bondholders shall expressly include mandamus.

Acceleration. To the extent acceleration of any amounts due with respect to the 2010 Series Bonds is permitted under the Agreement, the maturity of Bonds insured by the Insurer shall not be accelerated without the consent of the Insurer and in the event the maturity of the Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Issuer) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Bonds shall be fully discharged.

Grace Periods. No grace period for a covenant default under the Agreement shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Insurer. No grace period shall be permitted for any payment defaults.

Third Party Beneficiary. The Insurer shall be deemed as a third party beneficiary of the Agreement.

Redemption Provisions. Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of this Agreement which permits the purchase of Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Bond so purchased is not cancelled upon purchase.

Amendments. Any amendment, supplement, modification to, or waiver of, the Agreement or any other transaction document, including any underlying security agreement (each a "Related Document), that requires the consent of Bondholders or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

Project Fund Application. Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Project Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Bonds.

Rights of Insurer. The rights granted to the Insurer under this Agreement or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the

Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Insurer , affirmative or negative, as to whether the consent of the Bondholders or any other person is required in addition to the consent of the Insurer.

Defeasance Obligations. Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S&P or any combination thereof, shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves.

To accomplish defeasance, the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Agreement and (iv) a certificate of discharge of the Trustee with respect to the Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, Trustee and Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

Bonds shall be deemed "Outstanding" under the Agreement unless and until they are in fact paid and retired or the above criteria are met.

Payments of Insurer. Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Agreement and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with this Agreement. The Agreement shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

Subrogation. The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, becomes subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the

Issuer to the Insurer under the Related Documents shall survive discharge of termination of such Related Documents.

Payments by Issuer. The Issuer shall pay or reimburse, but solely to the extent of available monies under the Agreement and funds and accounts established thereunder, the Insurer any and all charges, fees, cost and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under this Agreement or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, this Agreement or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with this Agreement or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Agreement or any other Related Document.

Application of Funds. After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Issuer only after the payment of past due and current debt service on the Bonds and amounts required to restore the Capital Reserve Fund to the Minimum Capital Reserve Fund Requirement.

Insurer Rights to Make Payment. The Insurer shall be entitled to pay principal or interest on the Bonds that shall become due for payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with this Agreement, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

Conditions with Respect to Additional Bonds. Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Agreement, no such issuance may occur (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance and (2) unless the Capital Reserve Fund is fully funded at the Minimum Capital Reserve Fund Requirement (including the proposed issue) upon the issuance of such Additional Bonds, in either case unless otherwise permitted by the Insurer.

Consent of Insurer. No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

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APPENDIX C

Proposed Forms of Continuing Disclosure Agreements

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EXHIBIT A

PROPOSED FORM OF
RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Rhode Island Economic Development Corporation (the "Issuer") in connection with the issuance of its $75,000,000 Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 dated November 2, 2010, due November 1, 2020 (the "2010 Bonds"). The Bonds are being issued pursuant to a Loan and Trust Agreement dated November 1, 2010 (the "Trust Agreement"). The proceeds of the Bonds are being loaned by the Issuer to 38 Studios, LLC (the "Company") pursuant to the Trust Agreement. In connection therewith, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The 2010 Bonds are exempt from the provisions of the Rule and are not subject to the continuing disclosure requirements thereof. Although the 2010 Bonds are not subject to the Rule, the Issuer has nonetheless agreed execute this Disclosure Agreement and to provide ongoing disclosure for the benefit of the Owners of the 2010 Bonds with regard to the items listed below.

SECTION 2. Definitions. For purposes of this Disclosure Agreement the following capitalized terms shall have the following meanings:

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15(b)(1) of the Securities and Exchange Act of 1934, as amended, and designated as the sole repository by the Securities and Exchange Commission to receive filings pursuant to the Rule.

"Owners of the 2010 Bonds" shall mean the registered owners, including beneficial owners, of the 2010 Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the 2010 Bonds in connection with offering of the 2010 Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Reporting of Material and Other Enumerated Events.

(a) The Issuer shall give notice, in accordance with subsection 3(b) below, of the occurrence of any of the following events with respect to the 2010 Bonds, if material:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Modifications to rights of the Owners of the Bonds.

6. Bond calls.

7. Defeasances.

8. Release, substitution or sale of property securing repayment of the Bonds.

9. Rating changes.

10. Default by the Company resulting from the nonpayment of loan payments under the Trust Agreement, or the occurrence of any other Event of Default under the Trust Agreement.

11. Delivery of a certificate to the Governor of the State of Rhode Island requesting appropriation pursuant to Sections 5.04(b) and (c) of the Trust Agreement.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the Issuer shall promptly file a notice of such occurrence with the MSRB.

SECTION 4. Filing Requirements. All documents required under this Disclosure Agreement to be provided to the MSRB shall be accompanied by indentifying information as prescribed by the MSRB and shall be made in electronic format through the Electronic Municipal Market Access ("EMMA") website, currently located at http://emma.msrb.org.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance in accordance with the terms of the 2010 Bonds, prior redemption or payment in full of all of the 2010 Bonds.

SECTION 6. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Owner of the 2010 Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not constitute a default with respect to the 2010 Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 7. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Owners of the 2010 Bonds from time to time, and shall create no rights in any other person or entity.

SECTION 8. Enforcement. This Disclosure Agreement shall be construed and interpreted in accordance with the laws of the State of Rhode Island (the "State"), and any suits and actions arising out of this Disclosure Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

Date: November 2, 2010

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

By:_____
Executive Director

EXHIBIT B

PROPOSED FORM OF
38 STUDIOS, LLC
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by 38 Studios, LLC (the "Company") in connection with the issuance of the Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project) – Series 2010 dated November 2, 2010, due November 1, 2020 (the "2010 Bonds"). The Bonds are being issued pursuant to a Loan and Trust Agreement dated November 1, 2010 (the "Trust Agreement"). The proceeds of the Bonds are being loaned by the Rhode Island Economic Development Corporation (the "Issuer") to the Company pursuant to the Trust Agreement. The Company covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. The 2010 Bonds are exempt from the provisions of the Rule and are not subject to the continuing disclosure requirements thereof. Although the 2010 Bonds are not subject to the Rule, the Company has nonetheless voluntarily agreed to execute this Disclosure Agreement and to provide ongoing disclosure for the benefit of the Owners of the 2010 Bonds with regard to the items listed in subsections 3(a) and (b) below. The Company acknowledges that the Issuer has undertaken no responsibility with respect to any reports, notice or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Owners of the 2010 Bonds, with respect to any such reports, notices or disclosures.

SECTION 2. Definitions. For purposes of this Disclosure Agreement the following capitalized terms shall have the following meanings:

"Listed Events" shall mean any of the events listed in Section 3(b) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15(b)(1) of the Securities and Exchange Act of 1934, as amended, and designated as the sole repository by the Securities and Exchange Commission to receive filings pursuant to the Rule.

"Owners of the 2010 Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the 2010 Bonds in connection with the limited offering of the 2010 Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Reporting of Certain Enumerated Events.

(a) The Company, in accordance with subsection 3(c) below, shall provide quarterly information notifications on the 15th day of each December, March, June and September commencing after the Date of Delivery, notifying Owners of the 2010 Bonds of the following:

1. Any material update or change to the information contained in the Private Placement Memorandum dated October 22, 2010 under the headings "38 STUDIOS, LLC" and "THE PROJECT" (excluding the information contained under the subheadings "38 STUDIOS, LLC – Sales and Marketing Strategy" and "38 STUDIOS, LLC – Future Markets").

2. Failure of the Company to pay and discharge all taxes, assessments, governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to the Company.

3. The subordination of any security interests granted to the Issuer by the Company under the Trust Agreement.

4. The sale or transfer of greater than ten percent (10%) of the equity interests in the Company.

5. The sale or transfer of any assets not in the ordinary course of business operations.

6. Any material change or challenge to the status of the intellectual property or licensing rights of the Company and its products.

7. Any material change to the status of any lease agreement entered into by the Company in the State of Rhode Island.

8. The commencement of any lawsuit or other legal proceedings of material effect to the Company's operations and its products by or against the Company.

9. Any distributions, dividends or other payments to members or equity holders of the Company.

(b) In addition to the quarterly notifications provided in subsection 3(a) above, the Company shall immediately provide notification, in accordance with subsection 3(c) below, of the occurrence of the following Listed Events:

1. Failure of the Company to make any loan payments to the Issuer under the Trust Agreement.

2. The achievement of any milestones as provided in Section 4.03 of the Trust Agreement.

3. The dissolution, bankruptcy, receivership or insolvency of the Company.

(c) Whenever the Company obtains knowledge of the occurrence of a Listed Event, the Company shall promptly file a notice of such occurrence with the MSRB.

SECTION 4. Filing Requirements. All documents required under this Disclosure Agreement to be provided to the MSRB shall be accompanied by indentifying information as prescribed by the MSRB and shall be made in electronic format through the Electronic Municipal Market Access ("EMMA") website, currently located at http://emma.msrb.org.

SECTION 5. Termination of Reporting Obligation. The Company's obligations under this Disclosure Agreement shall terminate upon the legal defeasance in accordance with the terms of the 2010 Bonds, prior redemption or payment in full of all of the 2010 Bonds.

SECTION 6. Default. In the event of a failure of the Company to comply with any provision of this Disclosure Agreement any Owner of the 2010 Bonds may seek a court order for specific performance by the Company of its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not constitute a default with respect to the 2010 Bonds, and the sole remedy under this Disclosure Agreement in

the event of any failure of the Company to comply with this Disclosure Agreement shall be an action for specific performance of the Company's obligations hereunder and not for money damages in any amount.

SECTION 7. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Owners of the 2010 Bonds from time to time, and shall create no rights in any other person or entity.

SECTION 8. Enforcement. This Disclosure Agreement shall be construed and interpreted in accordance with the laws of the State of Rhode Island (the "State"), and any suits and actions arising out of this Disclosure Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

Date: November 2, 2010

38 STUDIOS, LLC

By:_____

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APPENDIX D

Proposed Form of Opinion of Bond Counsel

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MOSES & AFONSO LTD
◆ COUNSELORS ◆ AT ◆ LAW ◆

November 2, 2010

Rhode Island Economic Development Corporation
315 Iron Horse Way, Suite 101
Providence, Rhode Island 02908

Re: $75,000,000 Rhode Island Economic Development Corporation Job Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Rhode Island Economic Development Corporation (the "Issuer") of its $75,000,000 Rhode Island Economic Development Corporation Job Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the Rhode Island Economic Development Corporation Act, Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Act") and Chapters 026/029 of the Rhode Island Public Laws of 2010 (the "Jobs Act"), and a Loan and Trust Agreement dated as of November 1, 2010 by and among the Issuer, 38 Studios, LLC (the "Obligor") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (the "Agreement"). The proceeds of the Bonds will be used to finance, or reimburse the Obligor for financing, (i) the relocation of the Obligor's corporate headquarters and principal place of business to Rhode Island, (ii) the establishment and operation by the Obligor of a video gaming studio in the City of Providence, Rhode Island, (iii) the funding of a Capital Reserve Fund and Capitalized Interest Account, and (iv) the payment of certain expenses incurred in connection with the issuance of the Bonds (the "Project").

Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Agreement.

The Bonds are dated, mature on the date and in the principal amount, bear interest, are payable and are subject to optional, mandatory, sinking fund redemption and extraordinary redemption, all as provided in the Agreement. The Bonds are immobilized in the custody of The Depository Trust Company and a book-entry only system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants. Under the Agreement, the Obligor has agreed to make Loan Payments to be used to

160 Westminster Street ▪ Suite 400 ▪ Providence, Rhode Island 02903 ▪ Telephone: 401.453.3600 ▪ Facsimile 401.453.3604

pay when due the principal of and premium (if any) and interest on the Bonds, and such payments, together with moneys, additional collateral and other revenues under the Agreement and the rights of the Issuer under the Agreement (except certain rights to indemnification, reimbursements, certain payments and administrative fees) (collectively, the "Trust Estate") are pledged and assigned by the Issuer to the Trustee as security for the Bonds. The Bonds are payable solely from the Trust Estate. The Issuer reserves the right to issue Additional Bonds on the terms and conditions and for the purposes stated in the Agreement.

Reference is made to (a) the opinion of even date of Edwards Angell Palmer & Dodge LLP, counsel to the Obligor, with respect, among other matters, to the corporate status, good standing and qualification of the Obligor to do business in the State, the corporate power of the Obligor to enter into and perform the Agreement and the authorization, execution and delivery of the Agreement by the Obligor and with respect to the Agreement being binding and enforceable upon the Obligor and (b) the opinion of Adler Pollock & Sheehan P.C., counsel to the Issuer, that the Issuer is a public body corporate and agency of the State of Rhode Island and Providence Plantations (the "State"), and, with respect, among other things, to the due authorization, execution and delivery of the Agreement by the Issuer, and with respect to the Agreement being binding and enforceable upon the Issuer, which opinions we have relied upon in rendering the following opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Obligor contained in the Agreement and certifications of public officials furnished to us, and certifications furnished to us by or on behalf of the Issuer, without undertaking to verify the same by independent investigation.

Based upon and subject to the foregoing, we are of opinion that, under existing law:

1. The Issuer is duly created and validly existing as a public body corporate and agency of the State of Rhode Island and Providence Plantations (the "State") with the corporate power to enter into and perform the obligations under the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Agreement creates a valid lien on the Trust Estate and on the rights of the Issuer under the Agreement (except certain rights to indemnification, reimbursements, certain payments and administrative fees) on a parity with other bonds which may be issued or incurred on the terms and conditions provided in the Agreement.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special and limited obligations of the Issuer payable as described in the Agreement.

4. The Bonds and the income (including gain from sale or exchange) therefrom are free from Rhode Island taxes, except estate, inheritance and gift taxes. The Bonds and the income therefrom may be included in the measure of certain business and corporation taxes.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Private Placement Memorandum or other offering material relating to the Bonds, and we express no opinion relating thereto in this opinion.

It is to be understood that the rights of the Holders of the Bonds and the enforceability of the Bonds and the Agreement 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,

Moses & Afonso, Ltd.

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APPENDIX E

Proposed Form of Investor Letter

November 2, 2010

Rhode Island Economic Development Corporation
Providence, Rhode Island

38 Studios LLC
Maynard, Massachusetts

State of Rhode Island and Providence Plantations
Providence, Rhode Island

Barclays Capital
Boston, Massachusetts

Wells Fargo Securities, LLC
New York, New York

Moses & Afonso Ltd.
Providence, Rhode Island

Pannone Lopes Devereaux & West LLC
Providence, Rhode Island

Edwards Angell Palmer & Dodge LLP
Providence, Rhode Island

Taft & McSally LLP
Cranston, Rhode Island

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

Re: Purchase of a portion of the $75,000,000 aggregate principal amount of the Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 (the "Bonds")

To the Addressees:

This letter is being delivered in connection with the sale of the above-captioned Bonds (the "Bonds") to the undersigned purchaser (the "Purchaser"). In consideration of the initial purchase of the Bonds, the undersigned hereby represents, warrants, covenants, and agrees as follows:

1. The Purchaser is an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended (the "1933 Act") promulgated under the 1933 Act. The Purchaser is (a) able to bear the economic risks of an investment in the Bonds; (b) in a financial position to hold the Bonds for an indefinite period of time and (c) able to withstand without material injury a complete loss of investment in the Bonds. Purchaser understands that there is no established market for the Bonds, that one will not develop, that the Bonds have not and will not be registered with any federal or state securities agency or commission, and that the Loan and Trust Agreement dated as of November 1, 2010 by and among the Rhode Island Economic Development Corporation (the "Issuer"), 38 Studios, LLC (the "Company") and The Bank of New York Mellon Company N.A., as trustee (the "Trustee") has not been and will not be qualified under The Trust Indenture Act of 1939 (the "1939 Act"). Purchaser is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of taxable bonds, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bonds, and Purchaser is capable of making its own investigation of the Issuer, the Company and the Bonds.

2. The Purchaser is purchasing the Bonds for investment for its own account (and not for the account of another person) and is not purchasing the Bonds for resale or other disposition or with a view towards distribution of the Bonds. The Purchaser acknowledges that the Bonds are subject to restrictions on resale and transferability under federal and state securities laws, and that they may not transfer or resell the Bonds except as provided under applicable federal and state securities laws or pursuant to proper registration or

exemption therefrom. The Purchaser has no present intention of reselling or otherwise disposing of all or any part of the Bonds or dividing its interest therein, but the Purchaser, subject to compliance with applicable federal and state securities laws, reserves the right to sell or otherwise dispose of the Bonds as it chooses.

3. The Purchaser acknowledges that it has been furnished with or has been given access, without restriction or limitation, to all of the underlying documents in connection with this transaction, the Bonds, the Issuer, the Company and the State of Rhode Island (the "State"), as well as all other information that a reasonable, prudent, and knowledgeable investor would desire in evaluating the purchase of the Bonds, including a review of the final Private Placement Memorandum of the Issuer dated October 22, 2010 relating to the Bonds (the "Private Placement Memorandum") which includes a copy of the Information Statement of the State of Rhode Island and Providence Plantations, a Summary of Certain Provisions of the Loan and Trust Agreement dated November 1, 2010 by and between the Issuer, the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, and other legal documents surrounding the issuance of the Bonds. The Purchaser acknowledges that the Issuer and other knowledgeable parties have made available to it and its representatives the opportunity to obtain any additional information that it may desire and the opportunity to ask any questions it may desire of and receive satisfactory answers from the Issuer and the Company concerning the security and the source of payment of the Bonds. Purchaser has based its decision to invest in the Bonds solely on its own investigation and has not relied upon Wells Fargo Securities, LLC and Barclays Capital (the "Placement Agents"), the Trustee or any other addressee of this investment letter (the "Addressees") for advice.

4. In reaching the conclusion that it desires to acquire the Bonds, the Purchaser has carefully evaluated all risks associated with this investment and acknowledges that it is able to bear the economic risk of this investment. The Purchaser, by reason of its knowledge and experience in financial and business matters, is capable of evaluating the merits and risks of the investment in the Bonds. The representations in this investment letter shall not relieve the Issuer or the Company from any obligation to disclose any information required by the documents entered into in connection with the issuance of the Bonds or required by any applicable law. The representations, warranties and covenants in this investment letter shall survive the payment in full of the Bonds.

6. This investment letter shall be governed by and construed in accordance with the laws of the State of Rhode Island.

7. This investment letter and your acceptance will then constitute an agreement with respect to the matters herein contained as of the date hereof. This investment letter is expressly for your benefit and may not be relied upon by any other party.

8. This letter and the representations, warranties and agreements contained herein are made for the benefit of the Addressees, and any of their respective governing bodies, members, officers, employees, agents, consultants, attorneys, or their respective successors or assigns.

Very truly yours,

_____

By:_____

Title:

APPENDIX F

Copy of the Job Creation Guaranty Program Act

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State of Rhode Island and Providence Plantations

A. Ralph Mollis
Secretary of State

I, *A. Ralph Mollis*, Secretary of State of the State of Rhode Island and Providence Plantations hereby Certify that the aforegoing is a true xerographic copy of:
An Act (10S-2923 Substitute A) entitled "An Act Authorizing the Economic Development Corporation to Create the Job Creation Guaranty Program "
taken from the records in this office and compared with the original
Act (10-S2923 Substitute A) now Chapter 029 of the Rhode Island Public Laws of 2010, *passed by the General Assembly in concurrence at the January session A.D. 2010, signed by the Governor on the eleventh day of June A.D. 2010* and now remaining in this office.

In Testimony Whereof, I have hereunto
Set my hand and affixed the seal of the
State of Rhode Island and Providence Plantations
this, twenty-ninth day of September, A.D. 2010

Secretary of State

2010 -- S 2923 SUBSTITUTE A

LC02672/SUB A

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2010

PUBLIC LAWS
CHAPTER
10-029

IT COMM. LEGISLATIVE SERVICES
AW REVISION OFFICE

AN ACT

RELATING TO AUTHORIZING THE ECONOMIC DEVELOPMENT CORPORATION TO CREATE THE JOB CREATION GUARANTY PROGRAM

Introduced By: Senators DaPonte, Connors, Felag, Ruggerio, and Lynch

Date Introduced: May 20, 2010

Referred To: Senate Finance

It is enacted by the General Assembly as follows:

SECTION 1. WHEREAS, The Rhode Island Economic Development Corporation was created by the general assembly pursuant to chapter 64 of title 42 of the general laws in order to, among other things, promote the retention and expansion of businesses and the creation of jobs in Rhode Island; and

WHEREAS, One of the methods utilized by the Rhode Island Economic Development Corporation to help promote and expand businesses in Rhode Island is the use of its quasi-public corporation powers to issue bonds and debt and guarantees of debt; and

WHEREAS, Rhode Island continues to suffer from continuing high unemployment and other ill effects from the most recent national recession; and

WHEREAS, One of Rhode Island's economic development's strategies of continuing to optimize its knowledge economy assets such, as the sciences, technology, digital media, innovative manufacturing and other technologies, requires adequate access to capital; and

WHEREAS, Rhode Island companies in growth phases are limited in their ability to obtain reasonable credit without access to credit enhancement; and

WHEREAS, The Rhode Island Economic Development Corporation desires to create a loan guarantee and bond program pursuant to which it will be able to guarantee loan repayments either directly or through the issuance of its bonds in order to induce lending to companies growing their employment in Rhode Island;

WHEREAS, The Rhode Island Economic Development Corporation seeks to have authority pursuant to chapter 18 of title 35 of the general laws to guarantee debts or otherwise issue its bonds for this purpose not to exceed one hundred twenty five million dollars ($125,000,000) in the aggregate of unpaid principal, thereby limiting the contingent long-term cost of such program to the state; and

WHEREAS, The Rhode Island Economic Development Corporation requests the approval of the general assembly prior to undertaking such program; now, therefore be it

RESOLVED, That the Rhode Island Economic Development Corporation (the "corporation") is hereby empowered and authorized pursuant to chapter 18, title 35 of the general laws, and notwithstanding any provisions of chapter 64, title 42 of the general laws to the contrary, to create the corporation's Job Creation Guaranty Program (the "program"). Under the program, the corporation may from time to time issue its bonds, guaranty debt service thereon or on bonds issued by the Rhode Island industrial facilities corporation, or guaranty the debt service of another provided that the principal amount of bonds or other obligations guaranteed pursuant to the program shall not at any time exceed one hundred twenty-five million dollars ($125,000,000). The guaranty of any bond or other obligation may extend to repayment of the principal thereof, sinking payments therefore, interest thereon, and payment of any redemption price or premium in connection with the redemption thereof prior to maturity;

RESOLVED, That guaranties or bonds issued by the corporation shall be approved by its board of directors, or a committee of the board as so designated by the board, and shall be executed by its executive director or any authorized officer of the corporation as authorized in a resolution approved by the board of directors of the corporation from time to time in a form the corporation may prescribe. The board of directors of the corporation in authorizing any such guaranty or bond obligations shall consider and be guided by the following objectives:

(a) Priority will be given to projects that promptly create permanent, full-time jobs with annual wages in excess of two hundred fifty percent (250%) of the then current minimum wage earned annually with industry comparable benefits. A full-time job shall mean one in which the employee works a minimum of thirty (30) hours per week within this state.

(b) Any guaranty or bond obligations hereby authorized should leverage capital formation to facilitate business development with new and existing companies that will create or retain jobs in this state. The documentation reflecting guaranty and bond obligations authorized hereby shall contain adequate legal provisions for assuring performance by the borrower of creating and retaining new jobs within this state.

(c) Priority shall be given to guarantees that align with the State's economic development

strategy to expand high-wage jobs in knowledge industry growth clusters or with respect to assets related thereto.

(d) Guarantees or loan obligations from the program's borrower will be collateralized by any and all available assets of the borrower and guarantors, where applicable, including subordinate collateral positions, cross collateralization with other lenders and collateralized guarantees as appropriate.

(e) Insurances, including hazard and key person life, may be required where appropriate.

(f) The corporation may utilize such data and retain experts as necessary to assess and validate associated guaranty risk, and the corporation may charge borrower reasonable fees for the corporation's guaranty and reimbursement of expenses;

RESOLVED, that in order assure any payments due on guarantees or bond obligations issued by the corporation in connection with the program pursuant to this authorization are made, to assure the continued operation and solvency of the corporation for the carrying out of its corporate purposes, and except as otherwise set forth in these authorizing resolutions in accordance with the provisions of chapter 64, title 42 of the general laws: (i) The corporation shall create a reserve fund from which shall be charged any and all expenses of the corporation with respect to guarantee or bond obligations of the corporation pursuant to these resolutions resulting from a program borrower's default; and (ii) The corporation shall credit to the reserve fund no less than fifty percent (50%) of all program receipts of the corporation including guaranty fees, premiums and any other receipts or recoveries from collections received pursuant to the corporation's rights to recover payments as a guarantor; and (iii) To the extent the corporation's obligations as a guarantor or pursuant to its program bond obligations are not satisfied by amounts in its guaranty reserve fund, the executive director of the corporation shall annually, on or before December 1st, make and deliver to the governor a certificate stating the minimum amount, if any, required for the corporation to make payments due on such guarantees. During each January session of the general assembly, the governor shall submit to the general assembly, as part of the governor's budget, the total of such sums, if any, required to pay any and all obligations of the corporation under such guarantees or bond obligations pursuant to the terms of this authorization. All sums appropriated by the general assembly for that purpose, and paid to the corporation, if any, shall be utilized by the corporation to make payments due on such guarantees or bond obligations. Any recoveries by the corporation of guarantee payments are to be returned to the guarantee reserve fund and utilized to reduce any obligation of the state pursuant to any guarantees entered into by the corporation;

RESOLVED, on or before January 1 of each year, the corporation shall issue a report on

all guarantees issued by the corporation pursuant to this authorization. The report shall include at a minimum: a list of each guarantee issued; a description of the borrower on behalf of which the guarantee was issued; the lender or lenders that made the loan, and the amount of such loan, to such borrower; the amount of principal and interest on each such loan outstanding as of the date of such report; a summary of the collateral securing the repayment of such loan for which the guarantee was issued; and a summary of the economic impacts made by such borrower as a result of the guaranteed loan, including but not limited to the number, type and wages of jobs created by such borrower, any impacts on the industry in which the borrower operates and an estimate of income taxes for the state of Rhode Island generated by the employees of such borrower and the borrower itself.

SECTION 2. Chapter 42-64 of the General Laws entitled "Rhode Island Economic Development Corporation" is hereby amended by adding thereto the following section:

42-64-35. Government contract procurement assistance. -- (a) The general assembly recognizes that:

(1) Many Rhode Island companies provide products and services which are routinely procured by a myriad of governmental entities. However, attempting to understand and comply with the numerous certification, registration, opportunity identification, proposal, and contract requirements associated with government procurement often raises significant barriers for those companies with no government contracting experience;

(2) The costs associated with obtaining a government contract for products or services often prevents most small businesses from working in the governmental procurement market;

(3) Currently many of the federal procurement opportunities are contracted to businesses located outside of the state;

(4) The economic development corporation currently administers programs and initiatives that help create and grow companies in Rhode Island and recruit companies to Rhode Island through the use of state employees, public-private partnerships, and contractual services; and

(5) There exists a significant opportunity for Rhode Island companies to secure new business with federal, state, and local governments.

(b) The corporation through its director:

(1) Shall manage and direct the administration of state programs and initiatives whose purpose is to procure federal, state, and local governmental contracts;

(2) May require program accountability measures; and

(3) May receive and distribute legislative appropriations and public and private grants for

projects and programs that:

(i) Are focused on growing Rhode Island companies and positively impacting statewide revenues by expanding current services to help these companies secure new business with federal, state, and local governments;

(ii) Provide guidance to Rhode Island companies interested in obtaining new business with federal, state, and local governmental entities;

(iii) Would facilitate marketing, business development, and expansion opportunities for Rhode Island companies in cooperation with other state and local agencies and departments and with public, non-profit, or private sector partners such as local chambers of commerce, trade associations, or private contractors as determined by the corporation's director to successfully match Rhode Island businesses with government procurement opportunities.

Any supplemental appropriation to the corporation is to be utilized on specialized consulting service providers qualified and experienced in helping businesses increase their win rate of federal contracts. These services may include, but are not limited to:

(A) Assistance for the EDC in screening companies ("qualified businesses") who have the products, services, basic skills, and resources to effectively compete for and win federal business;

(B) Training and support for the qualified businesses in sales strategies prior to answering formal federal solicitations ("RFPs") and/or winning subcontracting business from major prime contractors;

(C) Proposal development support and training to improve the written responses to federal RFPs, and the oral presentations which follow;

(D) Training and support for negotiation and;

(E) Support services and subject matter experts to ensure contract performance and compliance.

(c) A recipient of monies distributed under this section shall provide the office with a set of standard monthly reports, the content of which shall be determined by the office to include at least the following information:

(1) ~~(i)~~ Consultative meetings with Rhode Island companies;

(2) ~~(ii)~~ Seminars or training meetings held;

(3) ~~(iii)~~ Government contracts awarded to Rhode Island companies;

(4) ~~(iv)~~ Jobs created/retained; and

(5) ~~(v)~~ Salary ranges of jobs created/retained.

(6) ~~(3)~~ The return on investment/cost per job.

CORRECTED BY LAW REVISION
JOINT COMMITTEE ON LEGISLATIVE SERVICES
4/3/2011

CORRECTED TITLE/TEXT
JOINT COMMITTEE ON LEGISLATIVE SERVICES
LAW REVISION
43-2-2.1

(4) ~~(4)~~ The return on investment/cost per job.

SECTION 3. This act shall take effect upon passage.

LC02672/SUB A

EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

A N A C T

RELATING TO AUTHORIZING THE ECONOMIC DEVELOPMENT CORPORATION TO CREATE THE JOB CREATION GUARANTY PROGRAM

***

1 This act would authorize the creation of the corporation's Job Creation Guaranty Program
2 (the "program") and guarantee annual debt service or issue bonds up to an aggregate guaranty or
3 bond obligations of the corporation with respect to the program not to exceed one hundred twenty
4 five million dollars ($125,000,000) in the aggregate. This act would also create the Procurement
5 Assistance Program.
6 This act would take effect upon passage.

LC02672/SUB A

PUBLIC LAWS
CHAPTER
10-029
JT COMM. LEGISLATIVE SERVICES
LAW REVISION OFFICE

2010 -- S 2923
SUBSTITUTE A

H.

AN ACT

RELATING TO AUTHORIZING THE ECONOMIC DEVELOPMENT CORPORATION TO CREATE THE JOB CREATION GUARANTY PROGRAM

LC02672/SUB A

Presented by

IN THE HOUSE OF REPRESENTATIVES
RECEIVED AND ORDERED
TO BE PLACED UPON THE
CALENDAR
JUN 10 2010
Clerk

IN THE HOUSE OF REPRESENTATIVES
READ & PASSED
IN CONCURRENCE
JUN 10 2010
Clerk

IN THE HOUSE OF REPRESENTATIVES
TRANSMITTED TO THE
GOVERNOR
JUN 11 2010
Recording Clerk

EXECUTIVE DEPARTMENT,
Received JUN 11 2010
APPROVED
JUN 11 2010 GOVERNOR

IN SENATE
THE COMMITTEE ON
FINANCE
RECOMMEND THE PASSAGE IN CONCURRENCE
OF THE BILL MARKED SUBSTITUTE "A"
AND THE INDEFINITE POSTPONEMENT
OF THE ORIGINAL BILL
FOR THE COMMITTEE

IN THE SENATE 6-8-10
THE COMMITTEE ON
FINANCE
RECOMMENDS THE PASSAGE OF
THE BILL MARKED S 2923 SUBSTITUTE A
AND THE INDEFINITE POSTPONEMENT
OF THE ORIGINAL BILL
FOR THE COMMITTEE

IN THE SENATE
Order to be placed upon the
CALENDAR
JUN 09 2010
Reading Clerk

IN THE SENATE
READ AND PASSED
JUN 09 2010
Reading Clerk

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APPENDIX G

Form of Municipal Bond Insurance Policy

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

Form 500NY (5/90)

RIEDC Rhode Island Economic Development Corporation

MIX
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FSC www.fsc.org

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RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION • JOB CREATION GUARANTY PROGRAM TAXABLE REVENUE BONDS (38 STUDIOS, LLC PROJECT), SERIES 2010