
**RHODE ISLAND DEPOSITORS
ECONOMIC PROTECTION
CORPORATION**

(A Component Unit of the State of Rhode
Island and Providence Plantations)

YEARS ENDED JUNE 30, 2001 and 2000

Ernest A. Almonte, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

September 28, 2001

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator William V. Irons
Senator Dennis L. Algiere
Representative Gerard M. Martineau
Representative Robert A. Watson

We have completed our audit of the financial statements of the Rhode Island Depositors Economic Protection Corporation for the fiscal year ended June 30, 2001 in accordance with Section 42-116-26 of the General Laws.

Our reports are contained herein as outlined in the Table of Contents.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

YEARS ENDED JUNE 30, 2001 AND 2000

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INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF DIRECTORS OF THE RHODE ISLAND DEPOSITORS ECONOMIC
PROTECTION CORPORATION:

We have audited the accompanying statement of assets, liabilities and fund balance of the Rhode Island Depositors Economic Protection Corporation (DEPCO), a component unit of the State of Rhode Island and Providence Plantations, as of June 30, 2001, and the related statements of revenues, expenses and changes in fund balance (deficit) and cash flows for the year then ended. These financial statements are the responsibility of DEPCO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of DEPCO as of and for the year ended June 30, 2000, were audited by other auditors whose report dated September 7, 2000, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DEPCO as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 7 and 8 to the financial statements, DEPCO has satisfied all its bonded indebtedness and is obligated by the General Laws to return all proceeds from its operations to the State of Rhode Island. The Board of Directors shall dissolve the Corporation once it has determined the purposes for which it was created have been substantially fulfilled.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2001 on our consideration of DEPCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying schedule of travel and entertainment expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ernest A. Almonte, CPA, CFE
Auditor General

September 26, 2001

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

JUNE 30, 2001 AND 2000

	2001	2000
<u>ASSETS</u>		
Cash and cash equivalents (Note 3)	\$ 14,588,731	\$ 40,467,609
Accounts receivable	138,997	63,090
Loans, at fair value (Note 4)	5,601,427	534,212
Other real estate owned, at fair value (Note 4)	884,501	2,481,916
Prepaid expenses and other assets	46,019	34,038
Due from receiverships (Note 5)	38,215	38,466
Fixed assets	18,986	81,664
	<u>21,316,876</u>	<u>43,700,995</u>
Restricted assets:		
Cash and cash equivalents (Note 3)	-0-	18,487,717
Investments (Note 3)	-0-	10,588,687
Investment income receivable	-0-	159,309
Total restricted assets	<u>-0-</u>	<u>29,235,713</u>
Deferred financing costs	-0-	564,599
	<u>\$ 21,316,876</u>	<u>\$ 73,501,307</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Bonds payable (Note 8):		
Special obligation bonds payable:		
1991 Series A serial bonds	\$ -0-	\$ 3,745,000
1992 Series A serial and term bonds	-0-	37,914,314
Total bonds payable	<u>-0-</u>	<u>41,659,314</u>
Accounts payable and accrued expenses	628,109	756,235
Due to the State (Note 7)	1,000,000	-0-
State sales tax appropriations payable, net (Note 6)	-0-	2,717,366
Accrued interest payable, bonds	-0-	1,071,798
Due to receiverships (Note 5)	253,215	1,010,847
Total liabilities	<u>1,881,324</u>	<u>47,215,560</u>
Commitments and contingencies (Notes 10 and 12)		
Fund balance (Note 11)	<u>19,435,552</u>	<u>26,285,747</u>
	<u>\$ 21,316,876</u>	<u>\$ 73,501,307</u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND BALANCE (DEFICIT)

YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
Operating revenues:		
Interest income on loans	\$ 6,138	\$ 2,034,722
Gain on sale of other real estate owned, net	7,085	110,333
Change in recorded value of:		
Loans (Note 4)	6,918,350	11,904,438
Other real estate owned	328,250	509,500
Furniture, equipment and other assets	(15,966)	- 0 -
Other liabilities (Note 5)	210,584	-0-
Loss from receiverships, net	(14,101)	(31,404)
Settlements, net (Note 13)	14,980,856	10,216,365
Gain on sale of loan portfolio (Note 4)	- 0 -	4,528,069
Other income	139,205	41,573
Total operating revenues	22,560,401	29,313,596
Operating expenses:		
Salaries and employee benefits	703,926	931,333
Professional services	274,486	1,014,511
Asset management expenses	83,328	982,626
Real estate owned and other direct asset-related expenses (Note 4)	500,354	987,949
Trustee fees (Note 14)	654,890	135,015
Other expenses	168,785	225,870
Total operating expenses	2,385,769	4,277,304
Net operating income	20,174,632	25,036,292
Nonoperating revenue, investment income	1,129,349	1,517,851
Nonoperating expenses:		
Interest expense, bonds	216,346	3,756,854
Amortization of deferred financing costs	17,071	272,632
Total nonoperating expenses	233,417	4,029,486

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND BALANCE (DEFICIT)

YEARS ENDED JUNE 30, 2001 AND 2000

(CONTINUED)

	2001	2000
Income before operating transfers	\$ 21,070,564	\$ 22,524,657
Operating transfers (to)/from the State, net (Notes 6 and 7)	(28,825,508)	46,894,097
Income before extraordinary item	(7,754,944)	69,418,754
Extraordinary items, net gain on defeasance and on escrow investment restructuring (Note 15)	904,749	770,037
Net income (loss)	(6,850,195)	70,188,791
Fund balance (deficit), beginning of year	26,285,747	(43,903,044)
Fund balance, end of year	\$ 19,435,552	\$ 26,285,747

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
Cash flows from operating activities:		
Sale of loans	\$ - 0 -	\$ 18,164,580
Collections from loans	1,845,017	17,341,929
Proceeds from sale of real estate owned	70,420	446,457
Interest received on loans	6,138	2,206,720
State sales tax appropriations received	10,744,323	58,033,052
Payments made to depositors	(480,134)	(3,126)
Payments to vendors, employees and consultants	(2,479,377)	(4,549,469)
Payments to the State	(39,400,000)	- 0 -
Cash transferred (to)/from receiverships	16,745	(26,613)
Proceeds from legal settlements, net	14,908,110	9,985,141
Other	132,002	5,136
	<u>\$ (14,636,756)</u>	<u>\$ 101,603,807</u>
Cash flows from noncapital financing activities:		
Defeasance of special obligation bonds	(31,999,826)	(56,691,040)
Proceeds from restructure of defeasance escrow	863,801	2,060,242
Payments made on bonds	(9,185,000)	(9,400,000)
Interest payments on bonds	(1,286,158)	(5,328,236)
	<u>(41,607,183)</u>	<u>(69,359,034)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	10,599,988	18,562,482
Purchases of investments	- 0 -	(10,851,098)
Investment income received	1,277,356	1,433,589
	<u>11,877,344</u>	<u>9,144,973</u>
Net increase (decrease) in cash and cash equivalents	(44,366,595)	41,389,746
Cash and cash equivalents, beginning of year	<u>58,955,326</u>	<u>17,565,580</u>
Cash and cash equivalents, end of year	<u>\$ 14,588,731</u>	<u>\$ 58,955,326</u>

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
Reconciliation of net income to net cash provided (used) by operating activities:		
Net income (loss)	\$ (6,850,195)	\$70,188,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in recorded value of:		
Other real estate owned	(328,250)	(509,500)
Loans	(6,918,350)	(11,904,438)
Furniture, equipment and other assets	15,966	-0-
Other liabilities	(210,584)	-0-
Loss on defeasance	71,051	1,290,205
Transfer of other real estate owned to the State – included in Operating transfers to the State	1,887,197	-0-
Amortization of:		
Deferred financing costs	17,071	272,632
Bond discount	1,986	34,708
Change in assets and liabilities:		
Increase in:		
Other real estate owned	- 0 -	(768,207)
Accounts receivable	(75,907)	- 0 -
Prepaid expenses and other assets	(11,981)	- 0 -
Investments	(11,301)	(50,707)
Investment income receivable	-0-	(33,389)
Due to State	1,000,000	- 0 -
State sales tax appropriations payable, net	- 0 -	2,717,366
Decrease in:		
Accounts receivable	- 0 -	52,203
Loans	1,851,107	32,181,120
State sales tax appropriation payable, net	(2,717,366)	- 0 -
Investment income receivable	159,309	- 0 -
Accrued interest receivable, loans	28	171,997
Other real estate owned	68,415	- 0 -
Prepaid expenses and other assets	- 0 -	45,339
Due from receiverships	251	200
Fixed assets	16,767	80
State sales tax appropriations receivable	- 0 -	8,421,590
Accounts payable and accrued expenses	(128,126)	(550,955)
Accrued interest payable, bonds	(1,071,798)	(1,606,090)
Due to receiverships	(547,048)	(183,543)
	(13,781,758)	99,769,402

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Other reconciling items included in investing and noncapital financing activities:		
Interest payments on bonds	\$ 1,286,158	\$ 5,328,236
Proceeds from restructure of defeasance escrow	(863,800)	(2,060,242)
Investment income received	<u>(1,277,356)</u>	<u>(1,433,589)</u>
	<u>(854,998)</u>	<u>1,834,405</u>
Net cash provided (used) by operating activities	<u><u>\$(14,636,756)</u></u>	<u><u>\$ 101,603,807</u></u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

1. BACKGROUND:

The Rhode Island Depositors Economic Protection Corporation (DEPCO) was created in 1991 under Chapter 42-116 of the Rhode Island General Laws as a public corporation and instrumentality of the State of Rhode Island and Providence Plantations (the State) having a distinct legal existence separate from the State and not constituting a department of State government. DEPCO was created to assist in protecting the interests of depositors of certain credit unions, loan and investment companies and bank and trust companies in the State (collectively, the closed institutions) which had been closed when their private deposit insurer, Rhode Island Share and Deposit Indemnity Corporation (RISDIC), failed on December 31, 1990, thereby leaving those institutions without deposit insurance, which is required by Section 19-11-19 of the Rhode Island General laws.

The General Laws empowered DEPCO to acquire all or a portion of the assets of the closed institutions thereby aiding the repayment of the deposit liabilities of the closed institutions. To provide funds for this and its other corporate purposes, DEPCO may issue bonds, subject to limitations, incur debt collateralized solely by its assets without limit as to amount, dispose of assets acquired, and receive appropriations of a portion of the State's sales tax revenue. DEPCO's bonds payable and other indebtedness are not deemed to be a debt, obligation or a pledge of the full faith and credit of the State.

In connection with DEPCO's plan (the plan) to repay depositors of the closed institutions, DEPCO assumed certain deposit liabilities and acquired all or a portion of the assets of certain closed institutions. Pursuant to its plan, DEPCO acquired assets in June 1992 with a recorded value of approximately \$427,100,000 from the receiverships of certain closed institutions. The acquisition price was equal to the deposit liabilities assumed, which amounted to approximately \$636,700,000. DEPCO also assisted the assumption of deposit liabilities and the acquisition of assets by other financial institutions and assisted in institutions obtaining federal deposit insurance. DEPCO funded these activities through the issuance of special obligation and general obligation bonds (see Note 8). DEPCO uses the state sales tax appropriations (see Note 6) and amounts realized on the sale of assets and other activities to cover operating and interest costs and repay bond obligations and guarantee deposit liabilities.

DEPCO is obligated, upon termination of the corporation, to return to the State title to all funds and other properties owned by it as a result of its activities as defined in Chapter 42-116 of the Rhode Island General Laws which remain after provision for the payment or satisfaction of all bonds, and other obligations of the corporation. Under Section 25 of RIGL 42-116, the board of directors is responsible for dissolving the corporation once it has determined that the purposes for which it was created have been substantially fulfilled.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

1. BACKGROUND (CONTINUED):

DEPCO is governed by a board of directors consisting of the Governor of the State, who serves as Chairman, and four members appointed by the Governor with the advice and consent of the State Senate.

DEPCO is considered a component unit of the State for financial reporting purposes, and accordingly, its financial statements are included in the State's Comprehensive Annual Financial Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting:

The financial statements of DEPCO are prepared on the accrual basis of accounting which is appropriate for governmental proprietary fund type activities. The Governmental Accounting Standards Board (GASB) has responsibility for establishing generally accepted accounting principles for governmental proprietary fund type activities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

DEPCO was created to effectively assume the role of a liquidating bank for the closed institutions. As such, certain accounting principles governing liquidating banks are applicable. Loans and real estate owned are carried at their estimated fair values. Liabilities are carried on the statement of assets and liabilities and fund balance (deficit) at historical cost, as this is the amount at which liabilities are currently anticipated to be settled.

Cash equivalents:

DEPCO considers all highly liquid investments, such as repurchase agreements and U.S. Treasury Bills, with a maturity of three months or less when purchased to be cash equivalents. Repurchase agreements are reported at cost. U.S. Treasury Bills are reported at amortized cost which approximates fair value since they have a remaining maturity of one year or less at time of purchase.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Investments:

Investments include U.S. Government securities and guaranteed investment contracts.

DEPCO reports participating interest earning investment contracts at fair value. Investments in nonparticipating interest earning investment contracts, such as nonnegotiable guaranteed investment contracts with redemption terms that do not consider market rates, and a nonnegotiable debenture, are reported at cost provided that the fair value of such contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.

All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in fund balance (deficit).

Loans and other real estate owned:

Loans and other real estate owned are recorded at estimated fair values. Fair value is the amount that can reasonably be expected to be received in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Estimated fair value is determined by appraisals of individual properties or similar procedures which management believes result in a reasonable estimation of the fair values of the assets and are consistent with the methodology used by appraisers. Such methodology is based on estimated cash flows from the collection, sale, orderly liquidation or other realization of these assets, net of any direct operating expenses and selling costs of the assets. In formulating the estimates, management takes into account economic conditions and specific factors applicable to each asset (for example, financial condition of borrower and guarantor, condition and marketability of collateral or property owned, collection and workout costs and advances, liabilities, bankruptcy and pending litigation, etc.). The estimated cash flows are then discounted at rates believed to result in appropriate market rates of return given the inherent uncertainties associated with these assets. Actual proceeds from the sale, collection or liquidation of assets may differ from the estimated fair values reported as of the balance sheet date.

Amounts realized in excess of or less than carrying value are recorded in the period in which the corresponding asset is sold.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans and other real estate owned (continued):

Interest on most loans is included in income as earned based upon interest rates applied to unpaid principal. No interest is accrued when loans are greater than 90 days delinquent. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is charged against current period income. Subsequent cash receipts on nonaccrual loans are applied to the outstanding principal balance of the loan, or recognized as interest income, depending on management's assessment of the ultimate collectibility of the loan. Nonaccrual loans may be returned to full accrual status when principal and interest payments are not delinquent.

DEPCO's loans and other real estate owned are primarily concentrated in the State. Repayment of loans and sales of other real estate owned is in part dependent upon the economic conditions of the area.

Deferred financing costs:

Deferred financing costs on bonds payable are being amortized over the estimated term of the related debt using a method which approximates the level-yield method. When a bond or a portion of a bond is retired early, the related portion of the deferred financing costs is expensed and reported as a component of the extraordinary item.

Special obligation bonds payable:

Bonds are carried net of premium or discount plus any accreted interest, as this is the amount at which they are currently anticipated to be settled. Premiums and discounts on bonds payable are amortized as an adjustment to interest expense over the estimated term of the related debt using a method which approximates the level-yield method. When a bond or portion of a bond is retired early, the related portion of premium or discount is expensed and reported as a component of the extraordinary item.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Reclassifications:

Certain fiscal 2000 amounts have been reclassified to conform to the current year presentation.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS:

At June 30, 2001 and 2000, the carrying amount of DEPCO's cash deposits consisted of the following:

	<u>2001</u>	<u>2000</u>
Unrestricted	\$ 254,866	\$ 19,143
Restricted	<u>- 0 -</u>	<u>49,689</u>
Total cash	<u><u>\$ 254,866</u></u>	<u><u>\$ 68,832</u></u>

The corresponding bank balances at June 30, 2001 and 2000 were \$100,385 and \$245,998, of which \$100,000 was covered by federal deposit insurance and \$385 and \$145,998, respectively, was uninsured and uncollateralized.

The State of Rhode Island requires, effective October 1, 1991, that certain uninsured deposits be collateralized. Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, requires all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet minimum capital standards as required by its federal regulator must be collateralized. None of DEPCO's deposits were required to be collateralized.

DEPCO's enabling legislation authorizes it to invest any funds held in reserves, or revenues or funds not required for immediate disbursement, in investments, obligations or securities as authorized for the investment of funds by the State.

DEPCO's investment of proceeds from the sale of its special obligation bonds is further guided by specific bond indentures as follows:

Special obligation bond proceeds may be invested in:

- direct obligations of the United States of America;
- obligations guaranteed by the United States of America;
- certain obligations issued or guaranteed by particular federal agencies; and

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

- subject to certain specific restrictions, money market funds, certificates of deposit, savings accounts, deposit accounts, money market deposits, investment agreements, commercial paper, state and municipal obligations, federal funds, bankers' acceptances, and repurchase agreements.

DEPCO's cash equivalents and investments are classified among 3 categories of credit risk:

Category 1 - cash equivalents and investments that are insured or registered, or held by DEPCO or its agent in DEPCO's name;

Category 2 - cash equivalents and investments that are uninsured and unregistered, and are held by the counterparty's trust department or agent in DEPCO's name;

Category 3 - cash equivalents and investments that are uninsured and unregistered, and are held by the counterparty or its trust department or agent but not in DEPCO's name.

	2001			
	Category 1	Category 3	Not Categorized	Reported amount
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Government agency securities	-0-	\$ 14,330,073	-0-	\$ 14,330,073
Total cash equivalents and investments	-0-	\$ 14,330,073	-0-	\$ 14,330,073

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

	2000			Reported amount
	Category 1	Category 3	Not Categorized	
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Government securities	\$ - 0 -	\$ 40,448,466	\$ - 0 -	\$ 40,448,466
Restricted cash equivalents, U.S. Treasury bills	18,438,028	- 0 -	- 0 -	18,438,028
Restricted investments:				
Guaranteed investment contract – Berkshire Hathaway, Inc.			3,862,031	3,862,031
U.S. Treasury bills	6,726,656	- 0 -		6,726,656
	<u>6,726,656</u>	<u>- 0 -</u>	<u>3,862,031</u>	<u>10,588,687</u>
Total cash equivalents and investments	<u>\$ 25,164,684</u>	<u>\$ 40,448,466</u>	<u>\$ 3,862,031</u>	<u>\$ 69,475,181</u>

Reported amounts of cash equivalents and investments are recorded at, or approximate, fair values.

The Berkshire Hathaway, Inc. investment agreement represents an investment of funds with a single corporate counterparty utilized for the investment of the debt service fund requirements of the 1991 Series A special obligation bonds. It carries a fixed annual interest rate of 7.47%, payable semiannually commencing February 1, 1992, and matures August 1, 2021. The investment was neither insured nor collateralized at June 30, 2000 and no funds were invested as of June 30, 2001; however, if the investment ratings assigned by two national bond rating agencies to Berkshire's long-term unsecured, unsubordinated debt obligations are downgraded to a level below AA or Aa3, respectively, the investment agreement would be terminated or Berkshire would be required to deliver collateral comprised exclusively of U.S. Government securities and U.S. Government agency securities equal to 105% or 104% of principal and accrued interest. The agreement has no quoted market value and cannot be sold or assigned to another party.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

DEPCO may draw amounts under the investment agreement as needed without penalty provided the intended use of amounts drawn is in accordance with the trust agreement governing use of the proceeds of DEPCO's 1991 Series A special obligation bonds. DEPCO may not draw amounts under the agreement for the purpose of reinvesting funds with another entity.

In connection with its bond obligations, DEPCO is required to establish and maintain various reserve funds. The requirement to maintain various reserve funds ceased effective August 3, 2000 when all DEPCO's bonds were either paid, cancelled, or defeased/refunded.

The 1991 Series A, 1992 Series A, 1992 Series B and 1993 Series A special obligation bonds require the following reserve funds be maintained in restricted cash and investment balances:

- Special Revenue Fund

This fund was established for the deposit of sales tax receipts from the State. The fund disburses the amounts received monthly, first to the debt service fund, then to the rebate fund and finally, after the payment of semiannual debt service on the special obligation bonds, to DEPCO which can utilize the funds for any other valid corporate purpose. At June 30, 2001 and 2000, the balance of the special revenue fund was \$0 and \$18,451,681, respectively.

- Debt Service Fund

DEPCO's portion of the state sales tax receipts are required to be deposited into this fund on a monthly basis. The fund is to be used to pay the principal, if any, and interest due at the scheduled dates. At June 30, 2001 and 2000, the debt service fund was comprised of the following (see Note 7):

Special Obligation Bonds	2001	2000
1991 Series A	- 0 -	\$ 3,862,282
1992 Series A	- 0 -	6,609,128

- Rebate Fund

This fund requires that any amounts due to the federal government as a result of arbitrage earnings on the bond proceeds be set aside. At June 30, 2001 and 2000, no rebate fund was required.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

4. LOANS AND OTHER REAL ESTATE OWNED:

Loans:

DEPCO's loans receivable consisted of borrower obligations with principal balances outstanding totaling \$118,571,443 and \$120,418,407, at June 30, 2001 and 2000, respectively. Adjustments of \$112,970,016 and \$119,884,195, respectively, have been recorded to reflect these obligations at their estimated fair values. The majority of these loan principal balances represent the deficiency resulting from previous foreclosure on collateral. Consequently, most loans are uncollateralized and are on nonaccrual status.

The fair value of these loans reflects the estimated amount that could be realized from sale of the assets or through collection. The estimated fair value takes into account the current financial condition of the borrower and/or guarantor, existence and/or condition of collateral, marketability of collateral and related collection and work out costs. Actual proceeds from the sale, collection or liquidation of assets may differ from the estimated fair values reported as of the balance sheet date.

The change in recorded value of loans for the year ended June 30, 2001 resulted from approximately \$300,000 in fair value adjustment due to collection performance, approximately \$1,461,000 in collections on loans previously determined to have no estimated fair value and approximately \$5,160,000 in fair value adjustment due to acquisition of collateral on loans previously determined to have no estimated fair value.

The change in recorded value of loans for the year ended June 30, 2000 resulted from approximately \$2,300,000 in collections in excess of the estimated fair value of the respective loans collected, approximately \$4,500,000 in collections on loans previously determined to have no estimated fair value, and approximately \$5,100,000 in fair value adjustment due to collection performance.

During 2000, DEPCO sold the majority of its loan portfolio without recourse to third parties. The estimated fair value of loans was adjusted periodically and through the end of the last fiscal quarter prior to the sale of loans. The sale resulted in the recognition of an accounting gain of \$4,528,069.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

4. LOANS AND OTHER REAL ESTATE OWNED (CONTINUED):

Other real estate owned:

Other real estate owned consists of the following at June 30, 2000 and 1999:

	2001	2000
Residential	\$ - 0 -	\$ 67,915
Commercial real estate	184,501	1,714,001
Land	700,000	700,000
	\$ 884,501	\$ 2,481,916

Real estate owned and other direct asset-related expenses include rental income and other income of \$0 and \$110,756 for the years ended June 30, 2001 and 2000, respectively.

5. DUE TO/FROM RECEIVERSHIPS:

Due to/from receiverships is comprised of the following:

	2001	2000
Due from receiverships, other assets	\$ 38,215	\$ 38,466
Due to receiverships:		
Deposit liabilities	215,000	972,381
Other liabilities	38,215	38,466
Total due to receiverships	\$ 253,215	\$ 1,010,847

In connection with various agreements entered into with the receivers of the closed institutions, DEPCO has not acquired certain assets or assumed certain liabilities of the receivers.

DEPCO has a first priority security interest in the above assets which collateralize the due from receiverships amounting to \$38,215 and \$38,466 at June 30, 2001 and 2000, respectively. In accordance with its accounting policy, DEPCO carries the due from receiverships at the estimated fair value of the underlying assets. DEPCO is entitled to the net income or other proceeds generated by such assets and may, at its option, acquire them from the receiverships in accordance with the agreements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

5. DUE TO/FROM RECEIVERSHIPS (CONTINUED):

Liabilities not assumed by DEPCO that remain at the receiverships of the closed institutions include deposit liabilities to officers, members of the boards of directors and members of certain committees of the boards of directors of the closed institutions, accounts subject to legal liens and disputed claims of Heritage Loan and Investment Bank depositors still being determined by the courts. DEPCO has an obligation to assume such deposit liabilities and other liabilities amounting to \$253,215 and \$1,010,847 at June 30, 2001 and 2000, respectively; however, DEPCO is not required to assume, and payments under DEPCO's plan to pay back depositors are not required to be made, until such time as there are no remaining potential claims against these individuals. DEPCO has the right to assume such liabilities and to offset them against amounts due from the individuals as a result of final judgments and settlements.

During 2001 and 2000, approximately \$757,381 and \$183,300, respectively, of deposit liabilities was transferred from due to receivership to DEPCO. For year ended June 30, 2001, \$466,738 was paid to depositors as part of settlement agreements and \$80,059 was offset against claims against depositors. \$210,584 was not paid as part of the settlement agreements and is included in change in recorded value of liabilities in the statement of revenues, expenses and changes in fund balances (deficit). For the year ended June 30, 2000, \$180,600 was paid to depositors, and \$2,700 were claims denied by the court and included in other income in the statement of revenues, expenses and changes in fund balance (deficit).

Under the agreements, DEPCO has the right to put back to the receiverships any other real estate owned or loans collateralized by real estate with environmental concerns.

6. STATE SALES TAX APPROPRIATIONS:

Subject to the conditions disclosed below, DEPCO is entitled by statute to a portion of the State's sales tax revenue (six-tenths of one percent within the existing State sales tax rate). Payment of the dedicated portion of the State sales tax to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations.

The State budget for fiscal 2001, as enacted by the General Assembly and signed by the Governor, includes an appropriation of six-tenths of one percent within the existing sales tax rate of the State sales tax for deposit to DEPCO's Special Revenue Fund. Due to the final defeasance of all remaining outstanding bonds on August 3, 2000, the payment agreement between DEPCO and the State was terminated effective August 28, 2000. During fiscal 2001, DEPCO received \$10,744,323 in sales tax payments which included \$9,482,634 due at June 30, 2000 and payments totaling \$1,261,689 for the period through termination of the payment agreement between DEPCO and the State effective August 28, 2000.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

6. STATE SALES TAX APPROPRIATIONS (CONTINUED):

For the year ended June 30, 2000, the portion of State sales tax appropriated for DEPCO amounted to \$46,894,097. During 2000, the Rhode Island General Assembly enacted legislation that required DEPCO to return excess sales tax not to exceed \$12,200,000 of the year ended June 30, 2000 sales tax appropriation that was available after paying debt service on the Special Obligation Bonds. At June 30, 2000, State sales tax appropriations payable, net includes a receivable in the amount of \$9,482,634 and a payable in the amount of \$12,200,000.

7. OPERATING TRANSFERS TO/ FROM THE STATE:

During fiscal 2001, DEPCO transferred \$28,825,508 to the State which was comprised of the following components:

TRANSFER TO/FROM THE STATE

Fiscal 2001 Sales tax received by DEPCO prior to cancellation of the payment agreement effective August 28, 2000	\$ 1,261,689
Payments made to the State pursuant to General Law 42-116-25.1	(28,200,000)
Transfer of other real estate owned by DEPCO to the State, at fair value	<u>(1,887,197)</u>
Fiscal 2001 operating transfer to the State (net)	<u>(\$ 28,825,508)</u>

Effective July 1, 2000, the General Laws (section 42-116-25.1) were amended to require DEPCO, upon final defeasance of all corporation bonds, to pay to the State \$42,200,000 of corporation proceeds from all sources to the State's general fund on a quarterly basis. All additional corporation proceeds are to be paid to the State's sinking fund on a quarterly basis. DEPCO makes quarterly payments to the State based upon corporate proceeds available after payment of operating expenses. During fiscal 2001, DEPCO paid \$27,200,000 to the State and recorded a liability for an additional \$1,000,000 representing net proceeds for the fourth quarter of fiscal 2001. All future net proceeds of DEPCO will be paid quarterly to the State.

During fiscal 2000, DEPCO received a net operating transfer from the State totaling \$46,894,097 representing the portion of the State sales tax appropriated for DEPCO net of the amount DEPCO was required by the General Laws to return to the State (excess sales tax received in an amount not to exceed \$12,200,000).

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

8. BONDS PAYABLE:

Bonds payable at June 30, 2001 and 2000 are comprised of the following:

	2001	2000
Special obligation bonds:		
1991 Series A, 6.25% serial bond in 2000 due in varying amounts to August 1, 2000, interest payable semiannually on February 1 and August 1	- 0 -	\$ 3,745,000
1992 Series A:		
5.9%-6.3% serial bonds in 2000 due in varying amounts to August 1, 2005, interest payable semiannually on February 1 and August 1	- 0 -	\$ 37,980,000
Less discount (net of accumulated accretion of \$361,585 at June 30, 2000)	- 0 -	65,686
Total 1992 Series A	- 0 -	37,914,314
Total bonds payable	- 0 -	\$41,659,314

As of August 3, 2000, all of DEPCO's Bonds have been paid, canceled or defeased/refunded (Note 9). The following is a summary of the changes in the par value of bonds payable for the year ended June 30, 2001:

Description	July 1, 2000	Payments	Defeased	June 30, 2001
Special obligation bonds	\$ 41,725,000	\$ 9,185,000	\$ 32,540,000	\$ -0-

DEPCO has issued \$149,996,924 of 1991 Series A special obligation bonds; \$306,470,000 of 1992 Series A special obligation bonds; \$138,835,000 of 1992 Series B special obligation bonds; and \$206,635,000 of 1993 Series A special obligation bonds (collectively, the special obligation bonds). Prior to defeasance, the special obligation bonds were payable from monies deposited into a debt service fund held by DEPCO and pledged for the payment of the special obligation bonds. The repayment of the special obligation bonds was funded through a portion of the State's sales tax (see Notes 3 and 6).

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

8. BONDS PAYABLE (CONTINUED):

A reserve fund was required to be funded at the time of issuance of each of the special obligation bonds in an amount equal to 50 percent of maximum annual debt service for each of the special obligation bonds. The funding requirement was satisfied by delivery to the trustee of a surety bond issued by the Municipal Bond Investors Assurance Corporation and Financial Security Assurance Corporation. If a drawing is made on the surety bonds or if there is otherwise a deficiency in the reserve fund, DEPCO is required to repay the amount paid through the surety or to otherwise restore such deficiency within 90 days from any sales tax appropriations.

Payments of principal to bondholders (including sinking fund installments), interest on, and the accreted value of the special obligation bonds was further collateralized by a financial guaranty insurance policy issued by the Municipal Bond Investors Assurance Corporation. The financial guaranty insurance policy insured the payment when due of regularly scheduled payments of principal (including sinking fund installments) and interest on the special obligation bonds.

The 1991 Series A serial special obligation bonds maturing on August 1, 2000 are not subject to redemption.

The 1992 Series A serial special obligation bonds maturing on August 1, 2000 through August 1, 2005 are not subject to redemption.

The amount of special obligation bonds may not exceed, in the aggregate, an amount such that the aggregate maximum annual debt service payment for principal and interest on the outstanding special obligation bonds, calculated at the time of the current issuance of any such bonds, exceeds the proceeds from six-tenths of one percent within the existing state sales tax rate.

The special obligation bonds are not deemed to be a debt, obligation or a pledge of the full faith and credit of the State.

9. DEFEASANCE OF DEBT:

Defeased bonds - 2001:

During the year ended June 30, 2001, DEPCO purchased U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on \$32,540,000 1992 Series A special obligation bonds.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

9. DEFEASANCE OF DEBT (CONTINUED):

	1992 Series A
Term bonds maturing 2001	\$ 5,760,000
Term bonds maturing 2002	6,105,000
Term bonds maturing 2003	6,475,000
Term bonds maturing 2004	6,885,000
Term bonds maturing 2005	7,315,000
	\$ 32,540,000

These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities and fund balance (deficit). The defeasance was funded through the liquidation of assets, net settlements and excess State sales tax. The defeasance resulted in the recognition of an accounting loss of \$71,051. DEPCO reduced its aggregated principal and interest payments by approximately \$38,884,000 over the next 5 years.

Defeased bonds - 2000:

During the year ended June 30, 2000, DEPCO restructured the existing escrow for the 1992 Series B special obligation bonds, resulting in the recognition of an accounting gain of \$2,060,242.

During the year ended June 30, 2000, DEPCO purchased U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on \$3,980,000 of the 1991 Series A special obligation bonds, \$24,860,000 of the 1992 Series A special obligation bonds, \$20,975,000 of the 1992 Series B special obligation bonds and \$7,050,000 of the 1993 Series A special obligation bonds as follows:

	1991 Series A	1992 Series A	1992 Series B	1993 Series A
Term bonds maturing 2000			\$ 765,000	\$ 595,000
Term bonds maturing 2001	\$ 3,980,000		800,000	665,000
Term bonds maturing 2002			5,075,000	700,000
Term bonds maturing 2003			5,335,000	740,000
Term bonds maturing 2004			5,610,000	775,000
Term bonds maturing 2005			780,000	820,000
Term bonds maturing 2006		\$ 7,775,000	825,000	870,000
Term bonds maturing 2007		8,275,000	870,000	915,000
Term bonds maturing 2008			915,000	970,000
Term bonds maturing 2010		8,810,000		
	\$ 3,980,000	\$ 24,860,000	\$ 20,975,000	\$ 7,050,000

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

9. DEFEASANCE OF DEBT (CONTINUED):

These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities and fund balance (deficit). The defeasance was funded through the liquidation of assets, net settlements, excess State sales tax and a loan sale.

The defeasance resulted in the recognition of an accounting loss of \$1,290,205. DEPCO reduced its aggregated principal and interest payments by approximately \$76,666,000 over the next 10 years.

At June 30, 2001, \$647,410,000 of special obligation bonds remain outstanding but are considered defeased and/or refunded through deposit of U.S. Government Securities in irrevocable trusts to provide for all future debt service payments on the bonds.

10. DEFERRED COMPENSATION ARRANGEMENTS:

On March 31, 1994, DEPCO established an IRA-Simplified Pension Plan (IRA-SEP) for its employees. IRA-SEP is a defined contribution plan. Eligible for IRA-SEP are all employees who have worked at DEPCO for a period of at least six months in the preceding two calendar years, or have performed services during at least three of the preceding five years. Each eligible employee is entitled to select their fiduciary trustee who will be responsible for handling the IRA-SEP. DEPCO's contribution to the IRA-SEP is based on a percentage of each employee's compensation (up to \$150,000 annually), which is voted on by the Board of Directors annually. For the years ended June 30, 2001 and 2000, DEPCO contributed approximately \$56,631 and \$130,700, respectively, to the IRA-SEP.

11. FUND BALANCE (DEFICIT):

Fund balance (deficit) is comprised of the following at June 30, 2001 and 2000:

	2001	2000
Cumulative excess of expenses over revenue from liquidation activities	\$ (296,262,342)	\$ (317,909,405)
Cumulative net operating transfers from the State	315,697,894	344,195,152
	\$ 19,435,552	\$ 26,285,747

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

12. OTHER COMMITMENTS AND CONTINGENCIES:

DEPCO is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not been finally adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect upon the financial position of DEPCO.

DEPCO is pursuing claims and causes of action against a number of parties associated with or doing business for the failed institutions and RISDIC. These cases and other potential claims are currently being investigated and will be pursued by DEPCO; however, no estimates can be given with respect to the amount of the recoveries, if any, which may be achieved.

DEPCO to date has received cash and assets totalling \$8,100,000 from the RISDIC Receivership. These funds represent a partial payment of DEPCO's claims against the RISDIC Receivership. Should a final judgment by the court determine that DEPCO was not entitled to the funds, DEPCO would be required to refund the monies to RISDIC. In the opinion of management and DEPCO's legal counsel, the possibility of repayment is remote. During the year ended June 30, 2001, DEPCO received \$2,100,000 from the RISDIC Receivership which has been included in net settlements revenue in the statement of revenues, expenses and changes in fund balance (deficit).

DEPCO is obligated by the General Laws (section 42-116-25.1), as described in Note 7-Transfers to/from the State, to pay to the State, upon final defeasance of all corporation bonds, corporation proceeds from all sources on a quarterly basis.

DEPCO is obligated, upon termination of the corporation, to return to the State title to all funds and other properties owned by it as a result of its activities as defined in Chapter 42-116 of the Rhode Island General Laws which remain after provision for the payment or satisfaction of all bonds, and other obligations of the corporation.

13. SETTLEMENTS, NET:

During the year ended June 30, 2001, DEPCO settled several professional malpractice suits. The settlements, net of attorney fees and costs of \$3,100,974, totalled \$14,980,856.

During the year ended June 30, 2000, DEPCO settled several professional malpractice suits. The settlements, net of attorney fees and costs of \$1,593,293, totalled \$10,216,365.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2001 AND 2000

14. TRUSTEE FEES:

During fiscal 2001, DEPCO terminated its trustee agreement relative to its special obligation bonds upon final defeasance on August 3, 2000. DEPCO paid \$630,175 to the trustee as final settlement of its obligations pursuant to the trust agreement which is included in total trustee fees of \$654,890.

15. EXTRAORDINARY ITEM:

During fiscal 2001 and 2000, DEPCO defeased portions of its outstanding special obligation bonds (Note 9) and effected the restructuring of certain investments held in escrow to defease its special obligation bonds. These actions resulted in a net gain which is reflected as an extraordinary item on the statements of revenues, expenses, and changes in fund balance (deficit).

In fiscal 2001, the defeasance of DEPCO's remaining special obligation bonds resulted in an accounting loss of \$71,051 (Note 9) and the restructuring of certain investments held in escrow to defease the special obligation bonds resulted in a gain of \$975,800.

In fiscal 2000, the defeasance of certain of DEPCO's special obligation bonds resulted in an accounting loss of \$1,290,205 (Note 9) and the restructuring of certain investments held in escrow to defease the special obligation bonds resulted in a gain of \$2,060,242.

16. SUBSEQUENT EVENTS:

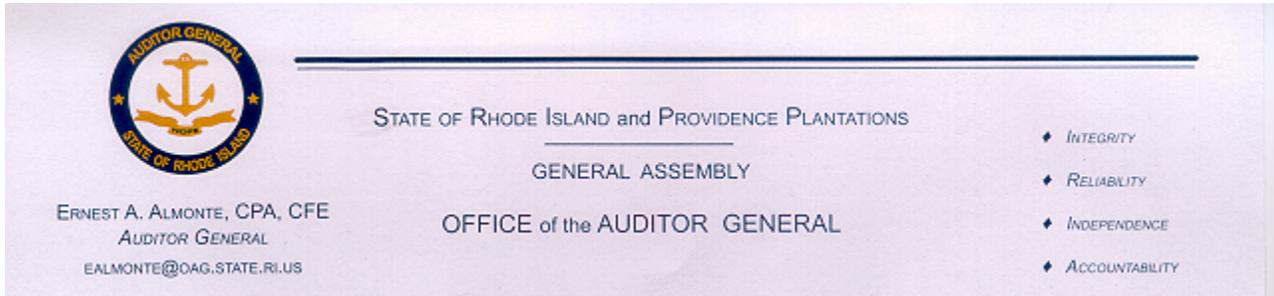
Subsequent to June 30, 2001, DEPCO received partial payments or entered into settlements with certain borrowers which resulted in actual collections on loans of \$920,000 with expectation of additional future payments. At June 30, 2001 these loans were considered to have a fair value of \$0.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A Component Unit of the State of Rhode Island and Providence Plantations)

SUPPLEMENTARY SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

YEAR ENDED JUNE 30, 2001

<i><u>Category:</u></i>	<i><u>Amount</u></i>
Mileage reimbursement to DEPCO employees – all individual items less than \$200.	\$ 1,219
Reimbursement for meals – all individual items less than \$200.	<u>269</u>
Total	<u>\$ 1,488</u>



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF DIRECTORS OF THE RHODE ISLAND DEPOSITORS ECONOMIC
PROTECTION CORPORATION:

We have audited the financial statements of the Rhode Island Depositors Economic Protection Corporation (DEPCO), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 26, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether DEPCO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DEPCO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect DEPCO's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable condition

During fiscal 2001, DEPCO continued to downsize its operations and reduce the number of its employees and, accordingly, had limited opportunities to effect segregation of duties relating to accounting and financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the board of directors, management, and the Joint Committee on Legislative Services, General Assembly, State of Rhode Island and Providence Plantations and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

September 26, 2001