
**RHODE ISLAND DEPOSITORS
ECONOMIC PROTECTION
CORPORATION**

(A Component Unit of the
State of Rhode Island)

For the Period

July 1, 2002 to January 3, 2003

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

February 26, 2003

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER William J. Murphy, Chairman

Senator William V. Irons
Senator Dennis L. Algiere
Representative Gordon D. Fox
Representative Robert A. Watson

We have completed our audit of the financial statements of the Rhode Island Depositors Economic Protection Corporation (DEPCO) for the period July 1, 2002 to January 3, 2003 in accordance with Section 42-116-26 of the General Laws. This is the final audit of the financial statements of DEPCO as the Board of Directors has voted pursuant to Section 42-116-25 of the General Laws that the purposes for which the corporation was created have been substantially fulfilled and accordingly has authorized dissolution of the corporation.

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)

For the Period July 1, 2002 to January 3, 2003

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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 net assets of the Rhode Island Depositors Economic Protection Corporation (DEPCO), a component unit of the State of Rhode Island and Providence Plantations, as of January 3, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the period July 1, 2002 to January 3, 2003. 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.

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 net assets of DEPCO as of January 3, 2003, and the results of its operations and cash flows for the period July 1, 2002 to January 3, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Board of Directors of DEPCO determined on December 20, 2002 that the Corporation had substantially fulfilled the purposes for which it was created and therefore voted to authorize the Corporation to cease its business operations and transfer all its assets and obligations to the State of Rhode Island effective January 3, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2003 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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. 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

February 19, 2003

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

Management's Discussion and Analysis

Management of the Rhode Island Depositors Economic Protection Corporation ("DEPCO") provides this Management's Discussion and Analysis of their financial performance for the readers of DEPCO's financial statements. This narrative provides an overview of DEPCO's financial activity for the period July 1, 2002 to January 3, 2003. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of DEPCO's financial activities based on the status of the corporation and issues currently facing management.

Understanding DEPCO's Financial Statements

DEPCO is a component unit of the State of Rhode Island and Providence Plantations ("State") accounted for as a liquidating entity, which reports all liquidating assets at their estimated fair value. In accordance with generally accepted accounting principles, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements which immediately follow this discussion and analysis by management reflect the financial position of DEPCO as of January 3, 2003 and the results of its operations and its cash flows for the period July 1, 2002 to January 3, 2003.

DEPCO is charged under Title 42 Chapter 116 of the General Laws of the State with maximizing the return from the sale or other disposition of the assets of the corporation, minimize the impact of such transactions on local real estate and financial markets and to make efficient use of funds obtained from the proceeds of such assets or from the State. Also since DEPCO satisfied by payment, cancellation or defeasance/refund all its bonded indebtedness as of August 3, 2000, net proceeds for DEPCO's operations are to be paid quarterly to the State.

Pursuant to Section 42-116-25 of the Rhode Island General Laws, the Board of Directors determined on December 20, 2002 that the Corporation had substantially fulfilled the purposes for which it was created and therefore voted to authorize the corporation to cease its business operations and transfer all its assets to the State of Rhode Island effective January 3, 2003. At that time the State assumed all outstanding obligations of the Corporation. Included in the transfer of assets were sufficient funds to satisfy all DEPCO obligations assumed by the State and to complete the liquidation of all loans and other assets transferred to the State.

Financial Highlights for the Period July 1, 2002 to January 3, 2003

- ❑ DEPCO transferred \$2.0 million cash and \$7.5 million in other assets (at fair value) to the State.
- ❑ DEPCO received \$414,900 from the collection of loan obligations and sold one real estate parcel for \$465,500.
- ❑ Recoveries from the settlement of the claim against the Rhode Island Share and Deposit Indemnity Corporation were \$248,100.

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

Management's Discussion and Analysis

- The recorded value of loans and other assets was increased by \$630,000 and \$14,000, respectively, during the period July 1, 2002 to January 3, 2003. DEPCO transferred the following assets (at estimated fair value) to the State and the State assumed the following liabilities:

Assets transferred to State (at fair value at the date of transfer):	
Cash	\$ 1,999,438
Loans	7,247,440
Furniture and equipment	10,700
Other assets	<u>276,190</u>
Total assets transferred	\$ 9,533,768
Liabilities transferred to State:	
Due to Heritage Receivership	\$ 215,000

Assets, Liabilities and Net Assets		
	<u>January 3, 2003</u>	<u>June 30, 2002</u>
Assets:		
Cash and cash equivalents	0	\$ 1,882,656
Loans	0	6,669,964
Real estate owned	0	465,500
Other Assets	<u>0</u>	<u>87,878</u>
		9,105,998
Liabilities:		
Accounts payable and accrued expenses	0	251,190
Due to the State	0	-0-
Due to receiverships	<u>0</u>	<u>215,000</u>
		<u>466,190</u>
Net assets	<u>0</u>	<u>\$ 8,639,808</u>

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

Management's Discussion and Analysis

DEPCO Operations		
	Period July 1, 2002 to January 3, 2003	Year Ended June 30, 2002
Revenues		
Change in recorded value		
Loans	\$ 629,655	\$ 3,355,269
Real estate owned and other assets	13,715	230,955
Net settlements	248,059	3,414,822
Gain on sale of real estate, loans and other assets	318	337,071
Other revenues	22,614	83,844
Investment income	<u>14,175</u>	<u>270,590</u>
	<u>928,536</u>	<u>\$ 7,692,551</u>
Expenses		
Salaries and employee benefits	90,986	\$ 441,562
Asset related expenses	81,883	316,634
Other expenses	76,707	220,961
Transfer to the State	<u>9,318,768</u>	<u>17,509,138</u>
	<u>9,568,344</u>	<u>\$ 18,488,295</u>
Change in net assets	<u>\$ (8,639,808)</u>	<u>\$ (10,795,744)</u>

Change in Net Assets

The reduction in revenues from the prior year is primarily due to the contraction of assets remaining for collection or liquidation, the decrease in net settlement recoveries from professional and legal malpractice suits, and decreased interest income resulting from lower interest rates and less cash on hand.

The reduction in expenses from the prior year is primarily due to the contraction of DEPCO thereby reducing operating expenses. The change in the transfer to the State reflects the reduction in revenues and proceeds available for transfer to the State and the final transfer of all remaining assets and liabilities to the State.

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

Management's Discussion and Analysis

Contacting DEPCO's Management

This discussion and analysis presentation is designed to provide a general overview of DEPCO's financial activity. Since the Corporation has authorized dissolution, questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Rhode Island Department of Administration, One Capitol Hill, Providence, RI, 02903.

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

STATEMENT OF NET ASSETS

JANUARY 3, 2003

<u>ASSETS</u>	-0-
<u>LIABILITIES</u>	<u>-0-</u>
<u>NET ASSETS</u>	<u>-0-</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)

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

Operating revenues:	
Change in recorded value of:	
Loans (notes 2 and 4)	\$ 629,655
Other assets	13,715
Settlements (note 6)	248,059
Other income	22,932
Total operating revenues	<u>914,361</u>
Operating expenses:	
Salaries and employee benefits	90,986
Professional services	17,538
Direct asset-related expenses	81,883
Other expenses	59,169
Total operating expenses	<u>249,576</u>
Operating income	<u>664,785</u>
Nonoperating income (expenses)	
Investment income	14,175
Transfers to State, net (note 4)	<u>(9,318,768)</u>
Change in net assets	(8,639,808)
Net assets, July 1, 2002	<u>8,639,808</u>
Net assets, January 3, 2003	<u>\$ -0-</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)

STATEMENT OF CASH FLOWS

FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

Cash flows from operating activities:	
Collections from loans	\$ 414,889
Proceeds from sale of real estate owned	92,202
Payments to vendors, employees and consultants	(431,559)
Other	27,075
	102,607
Cash flows from noncapital financing activities:	
Transfers to State	(1,999,438)
Cash flows from investing activities:	
Investment income received	14,175
Net decrease in cash and cash equivalents	(1,882,656)
Cash and cash equivalents, July 1, 2002	1,882,656
Cash and cash equivalents, January 3, 2003	\$ -0-
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 664,785
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Non-cash assets received as settlements	(248,059)
Change in recorded value of:	
Other assets	(13,715)
Loans	(629,655)
Decrease in:	
Accounts receivable	12,709
Loans	52,179
Other real estate owned	465,500
Prepaid expenses and other assets	50,053
Accounts payable and accrued expenses	(251,190)
Net cash provided by operating activities	\$ 102,607

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 THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

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, 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 to repay depositors of the closed institutions (the "Plan"), 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. DEPCO used state sales tax appropriations 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.

In accordance with the General Laws, DEPCO received a portion of the State's sales tax revenue (six-tenths of one percent within the existing State sales tax rate) for the period during which DEPCO bonds were outstanding. Due to the final defeasance of all remaining outstanding bonds on August 3, 2000, the agreement between DEPCO and the State regarding payment of a portion of the State sales tax to DEPCO was terminated effective August 28, 2000.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

1. BACKGROUND (CONTINUED):

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 corporation proceeds from all sources to the State on a quarterly basis. DEPCO made quarterly payments to the State based upon corporate proceeds available after payment of operating expenses.

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 42-116-25 of the Rhode Island General Laws, 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.

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.

The Board of Directors of DEPCO determined on December 20, 2002 that the Corporation had substantially fulfilled the purposes for which it was created and therefore voted to authorize the Corporation to cease its business operations and transfer all its assets and obligations to the State of Rhode Island effective January 3, 2003. DEPCO executed a "Memorandum of Understanding" with the State of Rhode Island which provided for, among other things, (1) the transfer of assets to the State, and (2) the transfer to the State of any and all rights and obligations, and the assumption, by the State, of the obligations of DEPCO under any contracts, loans, legal actions or collection efforts.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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 net assets 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. Cash equivalents are recorded at cost plus accrued interest which approximates fair value.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Assets are transferred to the State at their estimated fair values at the date of transfer.

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.

3. CASH AND CASH EQUIVALENTS:

At January 3, 2003, the carrying amount of DEPCO's cash deposits was \$0 and the corresponding bank balance was \$64,655 of which the entire amount was covered by federal deposit insurance. The difference between the bank and book cash balances is outstanding checks.

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.

4. TRANSFERS TO THE STATE:

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 corporation proceeds from all sources to the State on a quarterly basis. DEPCO made quarterly payments to the State based upon corporate proceeds available after payment of operating expenses.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

4. TRANSFERS TO THE STATE (continued):

During the period July 1, 2002 to January 3, 2003, DEPCO made net transfers of \$9,318,768 to the State which was comprised of the following components:

Assets:	
Cash	\$ 1,999,438
Loans (at fair value)	7,247,440
Furniture and equipment and other assets	10,700
Other assets	<u>276,190</u>
Total assets, at fair value, transferred to State	9,533,768
Liabilities:	
Due to Heritage Receivership	<u>215,000</u>
Net transfers to the State:	<u>\$ 9,318,768</u>

Loans:

DEPCO's transferred loans receivable consisting of borrower obligations with principal balances outstanding totaling \$92,808,511 at the time of transfer. The fair value of these loans receivable was determined to be \$7,247,440 at the time of transfer to the State. 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 date of transfer.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

4. TRANSFERS TO THE STATE (continued):

Liabilities:

DEPCO has recorded all known expenses associated with closure and ceasing operations as of January 3, 2003. Transfers of assets to the State included cash estimated to be sufficient to fund the payment of all known and contingent liabilities of DEPCO which have been assumed by the State.

DEPCO has an obligation to assume deposit liabilities of a closed institution in receivership amounting to \$215,000. This liability was assumed by the State as a result of the transfer of remaining assets and liabilities of the Corporation. This amount is a disputed claim by a Heritage Loan and Investment Bank depositor still being determined by the courts. 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 the depositor. Such liabilities can be offset against amounts due from the individuals as a result of final judgments and settlements.

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. As a result of the termination of the Corporation, the State has assumed responsibility for claims and contingencies of the Corporation.

5. 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 period July 1, 2002 to January 3, 2003, DEPCO contributed \$9,139 to the IRA-SEP.

6. SETTLEMENTS:

During the period July 1, 2002 to January 3, 2003, DEPCO completed settlement of its claims against the Rhode Island Share and Deposit Indemnity Corporation. Settlements totaled \$248,059 for the period.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

7. DEFEASANCE OF DEBT:

At January 3, 2003, \$350,435,000 of special obligation bonds remain outstanding but are considered defeased and/or refunded through deposit of U.S. Government and Government Agency securities in irrevocable trusts to provide for all future debt service payments on the bonds.

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

FOR THE PERIOD JULY 1, 2002 TO JANUARY 3, 2003

<u>Payee</u>	<u>Date</u>	<u>Amount</u>	<u>Purpose</u>
John F. McJennett, III	12/23/2002	\$1,039	Reimbursement for expenses related to the "Thank You and Farewell" dinner held for 22 DEPCO Directors, senior advisors and officers on December 11, 2002. Expenses included caterer and other miscellaneous costs related to the dinner.
All other individual items less than \$200		<u>\$ 158</u>	
Total travel and entertainment expense		<u>\$1,197</u>	



ERNEST A. ALMONTE, CPA, CFE
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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT 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 January 3, 2003 and for the period July 1, 2002 to January 3, 2003, and have issued our report thereon dated February 19, 2003. 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 the period July 1, 2002 to January 3, 2003, 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

February 19, 2003