RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

YEARS ENDED JUNE 30,1999 AND 1998

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

YEARS ENDED JUNE 30, 1999 AND 1998

CONTENTS

Independent Auditors' Report

Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations
and
Board of Directors of the Rhode Island Depositors Economic
Protection Corporation

We have audited the accompanying statements of assets, liabilities and fund deficit of the Rhode Island Depositors Economic Protection Corporation (DEPCO), a component unit of the State of Rhode Island and Providence Plantations (the State), as of June 30, 1999 and 1998, and the related statements of revenues, expenses and changes in fund deficit and cash flows for the years 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 audits.

We conducted our audits 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. 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 audits provide 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, 1999 and 1998, and the revenues, expenses and changes in fund deficit and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 8 to the financial statements, DEPCO is dependent upon annual appropriations by the General Assembly of the State of Rhode Island and Providence Plantations of a portion of the State's sales tax revenue to fund debt service on its outstanding special obligation bonds.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 1999 on our consideration of DEPCO's internal control over financial reporting and its compliance with laws, regulations and contracts.

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

September 2, 1999

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RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF ASSETS, LIABILITIES AND FUND DEFICIT

JUNE 30, 1999 AND 1998

ASSETS

	1999	1998
Cash and cash equivalents (Note 4)	$ 9,334,666	$ 4,556,456
Accounts receivable	115,293	119,839
Loans, at fair value (Note 5)	19,791,865	25,981,631
Accrued interest receivable, loans	172,025	271,716
Investments (Note 4)		7,516,926
Other real estate owned, at fair value (Note 5)	2,223,209	2,707,877
Prepaid expenses and other assets	79,377	197,206
Due from receiverships (Note 6)	38,666	31,445
Fixed assets	81,744	77,147
	31,836,845	41,460,243
Restricted assets:		
Cash and cash equivalents (Note 4)	8,230,914	7,508,922
Investments (Notes 3 and 4)	18,249,366	20,662,351
State sales tax appropriations receivable, net (Note 7)	8,421,590	8,442,568
Investment income receivable	125,920	104,142
Total restricted assets	35,027,790	36,717,983
Deferred financing costs	1,773,193	3,172,284
	$ 68,637,828	$ 81,350,510

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF ASSETS, LIABILITIES AND FUND DEFICIT (CONTINUED)

JUNE 30, 1999 AND 1998

LIABILITIES AND FUND DEFICIT

	1999	1998
Bonds payable (Note 8):		
Special obligation bonds payable:		
1991 Series A serial and capital appreciation bonds	$ 11,255,000	$ 26,009,733
1992 Series A serial and term bonds	67,839,824	92,026,371
1992 Series B serial and term bonds	21,197,956	21,781,108
1993 Series A serial and term bonds	7,050,000	46,652,478
Total bonds payable	107,342,780	186,469,690
Accounts payable and accrued expenses	1,307,190	1,269,691
Accrued interest payable, bonds	2,696,512	4,391,805
Accrued liabilities related to assisted transaction (Note 3)		540,000
Due to receiverships (Note 6)	1,194,390	1,724,667
Total liabilities	112,540,872	194,395,853
Commitments and contingencies (Notes 3, 10, and 12)		
Fund deficit (Note 11)	(43,903,044)	(113,045,343)
	$ 68,637,828	$ 81,350,510

See notes to financial statements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND DEFICIT

YEARS ENDED JUNE 30, 1999 AND 1998

	1999	1998
Operating revenues:		
Interest income on loans	$ 3,583,586	$ 4,304,873
Gain (loss) on sale of other real estate owned, net	(72,916)	421,608
Change in recorded value of:		
Loans (Note 5)	10,000,000	6,000,000
Other real estate owned		344,023
Net increase in fair value of investments		251,794
Gain (loss) from receiverships, net	(99,643)	11,562
Settlements, net (Notes 12 and 13)	19,548,008	89,331,196
Other income (Notes 3 and 6)	745,325	70,587
Total operating revenues	33,704,360	100,735,643
Operating expenses:		
Salaries and employee benefits	1,198,217	1,268,777
Professional services	1,554,505	1,912,974
Asset management expenses	1,410,702	1,496,967
Real estate owned and other direct asset-related expenses (Note 5)	1,602,909	2,084,384
Other expenses	411,609	454,438
Total operating expenses	6,177,942	7,217,540
Net operating income	27,526,418	93,518,103
Nonoperating revenue, investment income	1,432,903	1,893,898
Nonoperating expenses:		
Interest expense, bonds	8,835,515	14,510,255
Amortization of deferred financing costs	424,930	509,435
Total nonoperating expenses	9,260,445	15,019,690

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

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

YEARS ENDED JUNE 30,1999 AND 1998

	1999	1998
Income before operating transfers	$ 19,698,876	$ 80,392,311
Operating transfers, net, state sales tax appropriations (Note 7)	53,117,924	34,755,341
Income before extraordinary item	72,816,800	115,147,652
Extraordinary item, loss, net on defeasance of bonds payable (Note 9)	(3,674,501)	(4,190,180)
Net income	69,142,299	110,957,472
Fund deficit, beginning of year	(113,045,343)	(224,002,815)
Fund deficit, end of year	$ (43,903,044)	$ (113,045,343)

See notes to financial statements.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS

YEARS ENDED YUNE 30, 1999 AND 1998

	1999	1998
Cash flows from operating activities:		
Collections from loans	$ 16,179,527	$ 16,445,772
Proceeds from sale of real estate owned	700,810	2,476,505
Collections from receivership assets		519,097
Interest received on loans	3,683,278	4,405,799
State sales tax appropriations received	53,138,902	49,177,181
Remittance of excess state sales tax appropriations to state		(20,194,571)
Payments made to depositors	(134,212)	(103,091)
Payments to vendors, employees and consultants	(6,210,088)	(7,477,312)
Application of sales deposits for other real estate owned	(2,000)	(209,475)
Cash transferred from (to) receiverships	(37,710)	147,757
Proceeds from legal settlements, net	19,484,408	89,680,683
Other	3,229	9,566
Net cash provided by operating activities	86,806,144	134,877,911
Cash flows from noncapital financing activities:		
Defeasance of special obligation bonds	(66,392,805)	(110,371,384)
Payments made on bonds	(8,900,000)	(8,425,000)
Interest payments on bonds	(9,548,328)	(13,997,256)
Cash used in noncapital financing activities	(84,841,133)	(132,793,640)
Cash flows from investing activities:		
Proceeds from maturities of investments	20,850,054	17,077,002
Purchases of investments	(18,601,756)	(24,765,536)
Investment income received	1,286,893	1,672,370
Net cash provided by (used in) investing activities	3,535,191	(6,016,164)
Net increase (decrease) in cash and cash equivalents	5,500,202	(3,931,893)
Cash and cash equivalents, beginning of year	12,065,378	15,997,271
Cash and cash equivalents, end of year	$ 17,565,580	$ 12,065,378

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30,1999 AND 1998

	1999	1998
Reconciliation of net income to net cash provided by operating activities:	$ 69,142,299	$ 110,957,472
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in recorded value of:		
Other real estate owned, net		(344,023)
Loans	(10,000,000)	(6,000,000)
Net decrease (increase) in fair value of investments	291,223	(251,794)
Amortization of:		
Deferred financing costs	424,930	509,435
Bond premium and discount	146,223	187,717
Accretion of interest, capital appreciation bonds	534,194	756,864
Change in assets and liabilities:		
Increase in:		
Due from receiverships	(7,221)	
Fixed assets	(4,597)	
Investments	(474,502)	(40,182)
State sales tax appropriation receivable		(5,772,730)
Investment income receivable	(21,778)	(2,425)
Accounts payable and accrued expenses	37,499	
Decrease in:		
Accounts receivable	4,546	94,946
Loans	16,189,766	12,360,730
Accrued interest receivable, loans	99,691	100,927
Other real estate owned, net	484,668	1,312,643
Prepaid expenses and other assets	117,829	60,292
Fixed assets		344
Due from receiverships		5,275,507
State sales tax appropriation receivable	20,978	
Accounts payable and accrued expenses		(80,633)
Accrued interest payable, bonds	(1,393,229)	(431,583)
Due to receiverships	(530,277)	(149,713)
	75,062,242	118,543,794

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 1999 AND 1998

	1999	1998
Other reconciling items included in investing and noncapital financing activities:		
Interest payments on bonds	$ 9,548,328	$ 13,997,256
Loss on bond defeasance	3,674,501	4,190,180
Investment income received	(1,286,893)	(1,672,370)
Interest income, investments in escrow	(192,034)	(180,949)
	11,743,902	16,334,117
Net cash provided by operating activities	$ 86,806,144	$ 134,877,911

See notes to financial statements.

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 corporation 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 (see Note 3). 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 7) 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.

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 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.

2. Summary of significant accounting policies (continued):

Investments:

At June 30, 1999 and 1998, investments include U.S. Government securities and guaranteed investment contracts. At June 30, 1998, investments also include a First Bank and Trust debenture (see Note 3) and securities of U.S. Government agencies.

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 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.

2. Summary of significant accounting policies (continued):

Loans and other real estate owned (continued):

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

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.

3. Assisted transaction:

The transaction between First Bank and Trust (First Bank), and the Chariho-Exeter Credit Union in receivership, which closed on May 1, 1992, involved the transfer to First Bank of certain assets of the Chariho-Exeter Credit Union. In exchange, First Bank issued new deposits to the former depositors of the Chariho-Exeter Credit Union, excluding those to officers and directors of the closed institution, and assumed certain other liabilities.

DEPCO assisted this transaction during fiscal year 1992 by (i) paying to First Bank $5,150,436, which represents the amount by which liabilities assumed plus new deposits issued by First Bank exceeded the recorded value of the assets acquired by First Bank; (ii) funding an escrow account for $540,000 in connection with certain indemnities given to First Bank described below; and (iii) purchasing a $3,000,000 variable rate debenture of First Financial Corp., the parent of First Bank, which matured in May 1999 and was noninterest-bearing for the first three years.

Further, DEPCO had an obligation to pay on May 1, 1999 any deficiency resulting after netting charge-offs, recoveries and losses on disposition of the acquired assets against a First Bank loan loss reserve. DEPCO had recorded a $540,000 loss reserve which was included in accrued liabilities related to assisted transaction at June 30, 1998. The debenture and escrow account were pledged as collateral for any potential deficiency.

The $3,000,000 variable rate First Bank debenture due May 1, 1999 was noninterest-bearing until May 1, 1995 and accrued interest at a rate equal to the five-year U.S. Treasury bond rate plus 1% thereafter. The debenture was only transferable to another agency or instrumentality of the State.

All terms of the transaction were completed as of June 1, 1999. DEPCO received a total of $3,248,777 for payment of the debenture upon maturity and return of the escrow account, exclusive of interest, after netting deficiencies relating to acquired assets. For the year ended June 30, 1999, other income includes $248,777 representing the amount by which DEPCO’s recorded $540,000 loss reserve exceeded amounts required to be paid to First Bank for net deficiencies related to acquired assets.

4. Cash, cash equivalents and investments:

At June 30, 1999 and 1998, the carrying amount of DEPCO's cash in banks consisted of the following:

	1999	1998
Unrestricted	$ 99,927	$ 16,095
Restricted	4,441	3,824
Total cash	$ 104,368	$ 19,919

The corresponding bank balances at June 30, 1999 and 1998 were $203,507 and $160,580, of which $100,000 was covered by federal deposit insurance and $103,507 and $60,580, 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 its minimum capital standards as required by its federal regulator must 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
- 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.

4. Cash, cash equivalents and investments (continued):

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.

	1999			
	Category 1	Category 3	Not Categorized	Reported amount
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Goverment securities	$ - 0 -	$ 9,234,739	$ - 0 -	$ 9,234,739
Restricted cash equivalents, U.S. Treasury bills	8,226,473	- 0 -	- 0 -	8,226,473
Restricted investments:				
Guaranteed investment contract - Berkshire Hathaway, Inc.			3,576,371	3,576,371
U.S. Treasury bills	14,672,995			14,672,995
	14,672,995	- 0 -	3,576,371	18,249,366
Total cash equivalents and investments	$ 22,899,468	$ 9,234,739	$ 3,576,371	$ 35,710,578

4. Cash, cash equivalents and investments (continued):

	1998			
	Category 1	Category 3	Not Categorized	Reported amount
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Government securities	$ - 0 -	$ 4,540,361	$ - 0 -	$ 4,540,361
Restricted cash equivalents, U.S. Treasury bills	7,505,098	- 0 -	- 0 -	7,505,098
Unrestricted investments, U.S. Government securities	- 0 -	7,516,926	- 0 -	7,516,926
Restricted investments:				
Guaranteed investment contract - Berkshire Hathaway, Inc.			3,466,200	3,466,200
U.S. Treasury bills	14,196,151			14,196,151
First Bank and Trust variable rate debenture			3,000,000	3,000,000
	14,196,151	- 0 -	6,466,200	20,662,351
Total cash equivalents and Investments	$ 21,701,249	$12,057,287	$ 6,466,200	$ 40,224,736

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

4. Cash, cash equivalents and investments (continued):

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, 1999 and 1998; 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.

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 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, 1999 and 1998, the balance of the special revenue fund was $14,268,631 and $11,694,348, 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, 1999 and 1998, the debt service fund was comprised of the following (see Note 8):

· Cash, cash equivalents and investments (continued):

· Debt Service Fund (continued)

	1999	1998
Special Obligation Bonds		
1991 Series A	$ 3,576,371	$ 3,466,200
1992 Series A	6,802,793	6,878,631
1992 Series B	1,142,268	1,128,476
1993 Series A	365,107	1,117,821

· 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, 1999 and 1998, no rebate ftmd was required.

5. Loans and other real estate owned:

Loans:

Loans consist of the following at June 30, 1999 and 1998:

	1999	1998
Principal balances outstanding under borrowers' obligations:		
Commercial loans	$ 994,247	$ 2,411,045
Land	1,819,840	1,785,318
Real estate:		
Residential	17,571,444	22,472,556
Commercial	20,377,716	28,323,055
Consumer and other	6,981,788	3,165,731
	47,745,035	58,157,705
Less fair value adjustment	27,953,170	32,176,074
Loans at estimated fair value	$ 19,791,865	$ 25,981,631

5. Loans and other real estate owned (continued):

Loans on nonaccrual status were $15,894,081 and $16,520,749 at June 30, 1999 and 1998, respectively.

Principal balances outstanding under borrowers' obligations increase primarily as a result of court decisions establishing obligations for restitution or amounts capitalized for judgments on existing loans. Principal balances outstanding under borrowers' obligations decrease primarily as a result of principal payments, reductions due to bankruptcies, and settlements of loans.

The change in recorded value of loans for the year ended June 30, 1999 resulted from approximately $2,000,000 in collections in excess of the estimated fair value of the respective loans collected, approximately $3,500,000 in collections on loans previously determined to have no estimated fair value, approximately $1,500,000 in fair value adjustment for certain loans due to partial payments received on the respective loans, and approximately $3,000,000 in fair value adjustment due to historical performance.

The change in recorded value of loans for the year ended June 30, 1998 resulted from approximately $1,000,000 in collections in excess of the estimated fair value of the respective loans collected, approximately $4,000,000 in collections on loans previously determined to have no estimated fair value, and approximately $1,000,000 in fair value adjustment for certain loans due to partial payments received on the respective loans.

Other real estate owned:

Other real estate owned consists of the following at June 30, 1999 and 1998:

	1999	1998
Residential	$ 10,258	$ 52,849
Commercial real estate	1,430,749	1,734,548
Land	782,202	920,480
	$ 2,223,209	$ 2,707,877

Real estate owned and other direct asset-related expenses include rental income and other income of $120,475 and $159,771 for the years ended June 30, 1999 and 1998, respectively.

6. Due to/from receiverships:

Due to/from receiverships is comprised of the following:

	1999	1998
Due from receiverships:		
Cash and cash equivalents		$ 15,368
Other real estate owned		1
Other assets	$ 38,666	16,076
Total due from receiverships	$ 38,666	31,445
Due to receiverships:		
Deposit liabilities	$ 1,155,724	$ 1,723,864
Other liabilities	38,666	803
Total due to receiverships	$ 1,194,390	$ 1,724,667

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 $38,666 and $31,445 at June 30, 1999 and 1998, 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.

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 $1,194,390 and $1,724,667 at June 30, 1999 and 1998, 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.

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 1999 AND 1998

6. Due to/from receiverships (continued):

During 1999 and 1998, approximately $568,200 and $127, 100, respectively, of deposit liabilities was transferred from due to receivership to DEPCO. For the year ended June 30, 1999, $130,300 was paid to depositors, and $437,900 were claims denied by the court and included in other income in the statement of revenues, expenses and changes in fund deficit. For year ended June 30, 1998, $104,700 was paid to depositors and $22,400 was offset against those individuals' loans.

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.

7. 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). For the years ended June 30, 1999 and 1998, the portion of State sales tax appropriated for DEPCO, amounted to $53,117,924 and $49,755,341, respectively. During 1997, the Rhode Island General Assembly enacted legislation that required DEPCO to return excess sales tax not to exceed $15,000,000 of the year ended June 30, 1998 sales tax appropriation that was available after paying debt service on the Special Obligation Bonds. No amount was required to be returned for year ended June 30, 1999.

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 2000, 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. This 2000 appropriation is estimated at $55,600,000.

8. Bonds payable:

Bonds payable at June 30, 1999 and 1998 are comprised of the following:

	1999	1998
Special obligation bonds:		
1991 Series A:		
6.95%-7% capital appreciation bonds plus accretion of $4,387,809 at June 30, 1998, due in varying amounts to August 1, 2008		$ 11,424,733

(continued)

8. Bonds payable (continued):

	1999	1998
Special obligation bonds (continued):		
1991 Series A (continued):		
6.15%-6.375% serial bonds in 1999 and 6.05%-6.375% in 1998, due in varying amounts to August 1, 2001, interest payable semiannually on February 1 and August 1	$ 11,255,000	$ 14,585,000
Total 1991 Series A	11,255,000	26,009,733
1992 Series A:		
6.55% term bonds, due in varying amounts to August 1, 2008, interest payable semiannually on February 1 and August 1	8,810,000	28,200,000
5.75%-6.5% serial bonds in 1999 and 5.6%-6.5% in 1998, due in varying amounts to August 1, 2007, interest payable semiannually on February 1 and August 1	59,170,000	64,040,000
	67,980,000	92,240,000
Less discount (net of accumulated accretion of $287,095 and $213,642 at June 30, 1999 and 1998, respectively)	140,176	213,629
Total 1992 Series A	67,839,824	92,026,371
1992 Series B:		
4.7%-5.7% serial bonds in 1999 and 4.5%-5.7% in 1998, due in varying amounts to August 1, 2008, interest payable semiannually on February 1 and August 1	21,705,000	22,405,000

(continued)

8. Bonds payable (continued):

	1999	1998
Special obligation bonds (continued):		
1992 Series B (continued):		
Less discount (net of accumulated accretion of $5,076,690 and $4,959,842 at June 30, 1999 and 1998, respectively)	$ 507,044	$ 623,892
Total 1992 Series B	21,197,956	21,781,108
1993 Series A:		
5.625% term bonds in 1999 and 5.625%- 5.875% in 1998, due in varying amounts to August 1, 2008, interest payable semiannually on February 1 and August 1	4,350,000	43,970,000
5.1%-5.4% serial bonds, due in varying amounts to August 1, 2003, interest payable semiannually on February 1 and August 1	2,700,000	2,700,000
	7,050,000	46,670,000
Less discount (net of accumulated accretion of $102,187 and $84,665 at June 30, 1999 and 1998, respectively)	- 0 -	17,522
Total 1993 Series A	7,050,000	46,652,478
Total bonds payable	$ 107,342,780	$ 186,469,690

8. Bonds payable (continued):

The following is a schedule of debt service requirements to maturity (principal and interest), including sinking fund requirements, for bonds outstanding on June 30, 1999:

Fiscal year ending June 30,	Principal	Interest	Total
Special obligation bonds:			
2000	$ 9,400,000	$ 6,198,151	$ 15,598,151
2001	10,545,000	5,613,246	16,158,246
2002	11,205,000	4,964,868	16,169,868
2003	11,880,000	4,293,751	16,173,751
2004	12,550,000	3,598,552	16,148,552
2005	13,270,000	2,850,178	16,120,178
2006	8,915,000	2,188,293	11,103,293
2007	9,470,000	1,617,793	11,087,793
2008	10,060,000	1,002,805	11,062,805
2009	10,695,000	341,885	11,036,885
Total special obligation bonds	$ 107,990,000	$ 32,669,522	$ 140,659,522

Early retirement of the special obligation bonds could result in reduced interest costs.

The following is a summary of the changes in the par value of bonds payable for the year ended June 30, 1999:

Description	July 1, 1998	Payments	Defeased bonds	June 30, 1999
Special obligation bonds	$ 182,936,924	$ 8,900,000	$ 66,046,924	$ 107,990,000

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). The special obligation bonds not defeased (see Note 9) are 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 not defeased is funded through a portion of the State's sales tax (see Notes 4 and 7).

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 are further collateralized by a financial guaranty insurance policy issued by the Municipal Bond Investors Assurance Corporation. The financial guaranty insurance policy insures 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, 1999 through August 1, 2001 are not subject to redemption.

The 1992 Series A serial special obligation bonds maturing on August 1, 1999 through August 1, 2007 are not subject to redemption.

The 1992 Series B serial special obligation bonds maturing on August 1, 1999 through August 1, 2008 are not subject to redemption.

The 1993 Series A special obligation bonds are not subject to optional redemption. Certain of the term bonds are subject to mandatory sinking fund payments; however, with the exception of such mandatory sinking fund payments, the 1993 Series A special obligation bonds are not subject to redemption prior to their respective maturity dates.

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.

8. Bonds payable (continued):

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 - 1999:

During the year ended June 30, 1999, 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 $20,520,000 of the 1991 Series A capital appreciation bonds, $19,390,000 of the 1992 Series A special obligation bonds and $39,620,000 of the 1993 Series A special obligation bonds as follows:

	1991 Series A	1992 Series A	1993 Series A
Capital appreciation bonds maturing 2005	$ 5,130,000		
Capital appreciation bonds maturing 2006	5,130,000		
Capital appreciation bonds maturing 2007	5,130,000		
Capital appreciation bonds maturing 2008	5,130,000		
Term bonds maturing 2009		$ 9,390,000	$ 1,025,000
Term bonds maturing 2010		10,000,000	1,080,000
Term bonds maturing 2011			11,805,000
Term bonds maturing 2012			12,495,000
Term bonds maturing 2013			13,215,000
	$ 20,520,000	$ 19,390,000	$ 39,620,000

These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities and fund 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 $3,674,501. DEPCO reduced its aggregated principal and interest payments by approximately $124,981,000 over the next 15 years.

9. Defeasance of debt (continued):

Defeased bonds - 1998:

During the year ended June 30, 1998, 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 $63,905,000 of the 1992 Series B special obligation bonds and $43,975,000 of the 1993 Series A special obligation bonds as follows:

	1992 Series B	1993 Series A
Term bonds maturing 2010	$ 6,100,000	
Term bonds maturing 2011	6,455,000	
Term bonds maturing 2012	6,825,000	
Term bonds maturing 2013	7,220,000	
Term bonds maturing 2014	7,640,000	
Term bonds maturing 2015	8,085,000	$ 13,975,000
Term bonds maturing 2016	8,570,000	14,780,000
Term bonds maturing 2017	9,080,000	15,220,000
Term bonds maturing 2018	3,930,000	
	$ 63,905,000	$ 43,975,000

These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities and fund 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 $4,190,180. DEPCO reduced its aggregated principal and interest payments by approximately $216,837,000 over the next 20 years.

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, 1999 and 1998, DEPCO contributed approximately $157,700 and $209,200, respectively, to the IRA-SEP.

11. Fund deficit:

Fund deficit is comprised of the following at June 30, 1999 and 1998:

	1999	1998
Cumulative excess of expenses over revenue from liquidation activities	$ (341,204,099)	$ (357,228,474)
Cumulative net operating transfers, state sales tax appropriations	297,301,055	244,183,131
	$ (43,903,044)	$ (113,045,343)

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 $6,000,000 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, 1999, DEPCO received $4,000,000 from the RISDIC Receivership which has been included in net settlements revenue in the statement of revenues, expenses and changes in fund deficit.

DEPCO has available a $3,000,000 line of credit agreement with Citizens Bank. This line of credit agreement expires on November 30, 1999. Certain assets of DEPCO are pledged as collateral for any borrowings under this agreement. At June 30, 1999 and 1998, no amounts are outstanding under this line of credit agreement.

12. Other commitments and contingencies (continued):

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, 1999, DEPCO settled several professional malpractice suits. The settlements, net of attorney fees and costs of $1,977,999, totalled $15,548,008.

During the year ended June 30, 1998, DEPCO settled several professional malpractice suits. The settlements, net of attorney fees and costs of $16,347,173, totalled $89,331,196.

14. Subsequent events:

On August 3, 1999, DEPCO legally defeased $3,980,000 of principal balances of the 1991 Series A Special Obligation Bonds, $20,975,000 of principal balances of the 1992 Series B Special Obligation Bonds, and $7,050,000 of principal balances of the 1993 Series A Special Obligation Bonds.

Independent Auditors' Report on Supplementary Information

Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations
and
Board of Directors of the Rhode Island Depositors Economic
Protection Corporation

We conducted our audit to form an opinion on the basic financial statements of DEPCO taken as a whole. The year 2000 supplementary information on page 31 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 supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that DEPCO is or will become year 2000 compliant, that DEPCO's year 2000 remediation efforts will be successful in whole or in part, or that parties with which DEPCO does business are or will become year 2000 compliant.

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

September 2, 1999

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RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

YEAR 2000 INFORMATION

YEAR ENDED JUNE 30, 1999

The Year 2000 issue refers to the inability of many computerized systems to accurately process dates ending in the year 2000 and after. The effects of this issue will vary from system to system.

DEPCO's general ledger and accounts payable software has been upgraded to Year 2000 compliance by the provider at no cost. DEPCO's loan servicing agent, NCR, has represented to DEPCO that it is currently Year 2000 compliant. The changes instituted by NCR to comply with Year 2000 required DEPCO to upgrade some of its computer hardware. As of June 30, 1999, all computer systems are Year 2000 compliant.

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with Government Auditing Standards

Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations
and
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 and Providence Plantations, (the State) as of and for the year ended June 30, 1999, and have issued our report thereon dated September 2, 1999, which contained an explanatory paragraph related to DEPCO's dependence upon annual State sales tax appropriations. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with Government Auditing Standards (Continued)

Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations
and
Board of Directors of the Rhode Island Depositors Economic
Protection Corporation

The contents of this report are intended solely for the information and use of the Board of Directors and management of DEPCO and the Joint Committee on Legislative Services, General Assembly, State of Rhode Island and Providence Plantations and are not intended to be and should not be used by anyone other than these specified parties.

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

September 2, 1999