

RHODE ISLAND INDUSTRIAL
FACILITIES CORPORATION

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

JUNE 30, 2007 AND 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rhode Island Industrial Facilities Corporation
Providence, Rhode Island

We have audited the accompanying basic financial statements of the RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION (the Corporation), a component unit of the State of Rhode Island, as of June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

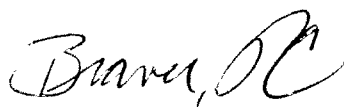
We conducted our audits in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 the Corporation as of June 30, 2007 and 2006 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2007 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 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.

September 12, 2007



Boston

Newton

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Rhode Island Industrial Facilities Corporation (the Corporation), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation as and for the years ended June 30, 2007 and 2006. This information should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Total assets exceeded total liabilities by \$443,207 and \$478,713 (net assets) at June 30, 2007 and 2006, respectively. The Corporation's net assets are unrestricted and may be used to meet the Corporation's operating requirements.
- Income before transfer for the year ended June 30, 2007, (2007) increased by \$2,339 when compared to the year ended June 30, 2006 (2006) .
- Net assets decreased by \$35,506 during 2007 as compared to a increase of \$112,155 during 2006 primarily due to a transfer of \$150,000 to the Economic Development Corporation in 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements.

The Corporation engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for services. As a result, the Corporation's basic financial statements include the statement of net assets, the statement of revenues, expenses and changes in net assets, the statement of cash flows, and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Corporation's net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. You might also need to consider other non-financial factors when evaluating the Corporation's financial position. The statement of revenues, expenses, and changes in net assets presents information on how the Corporation's net assets changed during the year.

All assets and liabilities and changes in net assets are reported using the accrual basis of accounting for governmental entities. All assets and liabilities and changes in net assets are reported as soon as the underlying event giving rise to the asset or liability and resulting change in net assets occurs, regardless of the timing of when the cash is received or paid. Consequently, certain revenues and expenses reported in the statement of revenues, expenses and changes in net assets will result in cash flows in future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Corporation

The financial highlights of the Corporation as of and for the years ended June 30, 2007 and 2006 are as follows:

STATEMENT OF NET ASSETS

	<u>2007</u>	<u>2006</u>	<u>% of Change</u>	<u>2006</u>	<u>2005</u>	<u>% of Change</u>
Noncurrent asset.....	\$ 662,555	\$ 632,744	4.7%	\$ 632,744	\$611,230	3.5%
Current assets	634,112	702,698	(9.7%)	702,698	601,716	16.7%
Total assets	1,296,667	1,335,442	(2.9%)	1,335,442	1,212,946	10.0%
Long-term liability.....	662,555	632,744	4.7%	632,744	611,230	3.5%
Other liabilities	190,905	223,985	(14.7%)	223,985	235,158	(4.7%)
Total liabilities	853,460	856,729	(.3%)	856,729	846,388	1.2%
Net assets, unrestricted	443,207	478,713	(7.4%)	478,713	366,558	30.5%
Total net assets	\$ 443,207	\$ 478,713	(7.4%)	\$ 478,713	\$366,558	30.5%

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenues:						
Bond administration fees.....	\$113,595	\$120,380	(5.6%)	\$120,380	\$134,560	(10.5%)
Other.....	4,551	6,300	(27.7%)	6,300	2,311	172.6%
Total operating revenues	118,146	126,680	(6.7%)	126,680	136,871	3.4%
Non operating revenues, interest income	28,003	18,809	48.8%	18,809	10,568	77.9%
Total non operating revenues..	28,003	18,809	48.8%	18,809	10,568	77.9%
Total revenues	146,149	145,489	.4%	145,489	147,439	(1.3%)
Operating expenses:						
Insurance	15,750	15,750	0%	15,750	15,000	5.0%
Contractual services	15,887	17,456	(8.9%)	17,456	18,594	(6.1%)
Other.....	18	128	(85.9%)	128	0	0
Bad debts (recoveries), net					(64,929)	(100.0%)
Total operating expenses	31,655	33,334	(5%)	33,334	(31,335)	(100.0%)
Income before transfer.....	114,494	112,155	2%	112,155	178,774	(37.2%)
Transfer to RI Economic Dev. Corporation	150,000	0	100%	0	250,000	100.00%
Change in net assets	\$(35,506)	\$112,155	(100%)	\$112,155	\$(71,226)	100.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Corporation (Continued)

Total net assets decreased by 7% in 2007 compared to a increase of 30% in 2006, respectively, primarily due to the Corporation transferring funds to Rhode Island Economic Development Corporation in 2007 at the Corporation's discretion.

Requests for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those interested in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Treasurer, Rhode Island Industrial Facilities Corporation, 315 Iron Horse Way Suite 101 , Providence, Rhode Island 02908.

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF NET ASSETS

JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 551,160	\$ 634,222
Bond administration fees receivable (net of \$5,000 allowance in 2007 and 2006)	2,747	5,685
Due from State agencies:		
Rhode Island Industrial-Recreational Building Authority	79,612	62,198
Rhode Island Economic Development Corporation	593	593
Total current assets	<u>634,112</u>	<u>702,698</u>
Non-current asset, restricted assets:		
Restricted cash and cash equivalents	<u>662,555</u>	<u>632,744</u>
 TOTAL ASSETS	 <u><u>\$ 1,296,667</u></u>	 <u><u>\$ 1,335,442</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Deferred revenue	\$ 190,905	\$ 223,985
Total current liabilities	<u>190,905</u>	<u>223,985</u>
Non-current liabilities:		
Due to Rhode Island Industrial-Recreational Building Authority	<u>662,555</u>	<u>632,744</u>
Total liabilities	<u>853,460</u>	<u>856,729</u>
Net assets, unrestricted	<u><u>\$ 443,207</u></u>	<u><u>\$ 478,713</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Charges for services, bond administration fees	\$ 113,595	\$ 120,380
Other	4,551	6,300
Total operating revenues	118,146	126,680
Operating expenses:		
Insurance	15,750	15,750
Contractual services	15,887	17,456
Miscellaneous	18	128
Total operating expenses	31,655	33,334
Operating income	86,491	93,346
Non-operating revenues:		
Interest income	28,003	18,809
Income before operating transfers	114,494	112,155
Operating transfers:		
Transfer to Rhode Island Economic Development Corporation	(150,000)	
Change in net assets	(35,506)	112,155
Net assets, beginning of the year	478,713	366,558
Net assets, end of the year	\$ 443,207	\$ 478,713

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash provided by (used for) operating activities:		
Cash received for administration fees	\$ 88,004	\$ 165,151
Cash paid to suppliers for goods and services	(31,655)	(33,334)
Net cash provided by operating activities	<u>56,349</u>	<u>131,817</u>
Cash provided by (used for) noncapital financing activities:		
Operating transfer out	(150,000)	
(Deposits) withdrawals (to) from restricted account	29,811	21,514
Net cash provided by (used for) noncapital financing activities	<u>(120,189)</u>	<u>21,514</u>
Cash provided by (used for) investing activities:		
Interest income received	28,003	18,809
Advances to RIIRBA	(79,615)	(89,816)
Repayment of advances to RIIRBA	62,201	43,838
Net cash provided by (used for) investing activities	<u>10,589</u>	<u>(27,169)</u>
Net increase (decrease) in cash and cash equivalents	(53,251)	126,162
Cash and cash equivalents, beginning of the year	<u>1,266,966</u>	<u>1,140,804</u>
Cash and cash equivalents, end of the year	<u>\$ 1,213,715</u>	<u>\$ 1,266,966</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 86,491	\$ 93,346
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	2,938	49,644
Deferred revenue	(33,080)	(11,173)
Net cash provided by operating activities	<u>\$ 56,349</u>	<u>\$ 131,817</u>
End of the year cash and cash equivalents consist of:		
Unrestricted cash and cash equivalents	\$ 551,160	\$ 634,222
Restricted cash and cash equivalents	662,555	632,744
Total	<u>\$ 1,213,715</u>	<u>\$ 1,266,966</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Description of organization

The Rhode Island Industrial Facilities Corporation (the Corporation), was organized in 1966 as a non-business corporation under Rhode Island law, and in 1967 was constituted and established as a public body corporate and agency of the State of Rhode Island (the State) by an act of the Rhode Island General Assembly. The Corporation was granted the power to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in Rhode Island. The Corporation is a component unit of the State for financial reporting purposes. Accordingly, the financial statements of the Corporation are included in the State of Rhode Island's Comprehensive Annual Financial Report.

The Corporation is exempt from Federal and state income taxes.

The Corporation engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external users.

The Corporation uses the economic resources measurement focus and accrual basis of accounting. The Corporation applies all pronouncements of the Governmental Accounting Standards Board (GASB), as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989 unless they conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting," the Corporation has elected not to apply all FASB pronouncements and interpretations issued after November 30, 1989.

The Corporation distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. Operating expenses include the cost of services provided and administrative expenses. All other revenues and expenses are reported as nonoperating revenues and expenses.

(b) Cash and cash equivalents

The Corporation considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consist of repurchase agreements in the aggregate amount of \$1,150,263 and \$1,211,950, respectively.

(c) Revenue recognition and concentrations

Bond administration fees paid by participants in the Corporation's revenue bond and note programs, calculated as one-eighth of one percent of the principal amount outstanding under conduit debt obligations determined at specified measurement dates, are recognized when earned over the terms of the respective bonds and notes. In certain instances, bond administration fees are paid in full by participants upon the Corporation issuing conduit debt obligations. In these instances, bond administration fees are generally calculated by the Corporation as the present value of one-eighth of one percent of the principal amount outstanding, based upon respective amortization schedules, under such conduit debt obligations at specified measurement dates. Such fees are reported as deferred revenue and recognized as revenue ratably over the term of the conduit debt. Other revenue is recognized when received.

(CONTINUED)

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue recognition and concentrations (Continued)

Bond administration fees from two participants represent 31% of the Corporation's bond administration fees for the year ended June 30, 2007. Bond administration fees from two participants represent 38% of the Corporation's bond administration fees at June 30, 2006.

Bond administration fees receivable from two participants represents 90% of the Corporation's bond administration fees receivable at June 30, 2007. Bond administration fees receivable from two participants represents 86% of the Corporation's net bond administration fees receivable at June 30, 2006.

(d) Use of estimates

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

2. CONDUIT DEBT

From time to time, the Corporation issues revenue bonds, notes, equipment acquisition notes and construction loan notes to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities. The bonds and notes are secured by the property financed and are payable solely from payments received on the underlying mortgage loans and lease agreements. Upon repayment of the bonds and notes, ownership of the acquired facilities transfers to the private-sector entity served by the bond or note issuance. The Corporation is not obligated in any manner for repayment of the bonds and notes. Accordingly, the bonds and notes are not reported as liabilities in the accompanying financial statements.

During the fiscal years ended June 30, 2007 and 2006, the Corporation issued in the aggregate \$12,825,000 and \$38,100,000, respectively, of revenue bonds, notes, equipment acquisition notes and construction loan notes to finance various capital expenditures for Rhode Island businesses. The interest rates for outstanding debt range from fixed rates of 4% to 13% as well as floating rates set as a percentage of the prime interest rate. Maturity dates for the bonds and notes range from 2008 to 2037.

Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. Accordingly, the payments are not shown as receipts and disbursements of the Corporation. The aggregate amount outstanding on this debt at June 30, 2007 and 2006 was approximately \$118,000,000 and \$120,000,000 respectively.

(CONTINUED)

RHODE ISLAND INDUSTRIAL FACILITIES CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

3. CASH DEPOSITS

The Corporation adopted the provisions of GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

The Corporation assumes levels of custodial credit risks for its cash and cash equivalents. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be recovered. The Corporation is authorized to invest excess funds by the provisions of the General Laws of the State, Chapter 37, Section 45-37.1-6, in obligations of the State and of the United States Government or certain agencies thereof, and in certificates of deposit. The Corporation also is authorized to enter into repurchase agreements.

In accordance with State of Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, are required, at a minimum, to insure or pledge eligible collateral equal to one-hundred percent of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators are required to insure or pledge eligible collateral equal to one-hundred percent of deposits, regardless of maturity. The Corporation does not have a separate deposit policy for custodial credit risk.

Cash deposits with financial institutions at June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Carrying amount of cash deposited - checking.....	\$63,452	\$55,016
Bank balances:		
Covered by federal depository insurance.....	<u>\$63,452</u>	<u>\$55,016</u>

At June 30, 2007 and 2006, repurchase agreements, reported as cash equivalents in the accompanying financial statements, are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Corporation's name. The Corporation does not have a separate policy for custodial credit risk.

4. RESTRICTED CASH EQUIVALENT

The Rhode Island Industrial-Recreational Building Authority (RIIRBA), a component unit of the State, guarantees principal and interest payments required under first mortgages and first security agreements issued to private-sector entities. At June 30, 2007 and 2006, the Corporation is holding funds of the Rhode Island Economic Development Corporation (RIEDC) required to be established and held in escrow on behalf of RIIRBA relating to RIIRBA's guarantee of the revenue bond issued for a private-sector entity. RIIRBA's funds ordinarily are held by the State, but in order to segregate such funds from the State's general fund, the Corporation holds such escrow funds on behalf of RIIRBA.

The escrow funds held on behalf of RIIRBA are held in a repurchase agreement in the Corporation's name and the restricted repurchase agreement and related amount due to RIIRBA have been recorded separately in the accompanying financial statements.

(CONCLUDED)

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

Board of Directors
Rhode Island Industrial Facilities Corporation
Providence, Rhode Island

We have audited the financial statements of Rhode Island Industrial Facilities Corporation (the Corporation), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Boston

Newton

Board of Directors
Rhode Island Industrial Facilities Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's Financial statements are free of material misstatement, we performed tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors and management of Rhode Island Industrial Facilities Corporation, the Rhode Island Department of Administration, and the Rhode Island Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2007

A handwritten signature in cursive script that reads "Brian, PC".