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

YEARS ENDED JUNE 30,1998 AND 1997

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

YEARS ENDED JUNE 30,1998 AND 1997

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 statement 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, 1998, and the related statements of revenues, expenses and changes in fund deficit and cash flows for the year then ended. These financial statements are the responsibility of DEPCO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of DEPCO as of and for the year ended June 30, 1997 were audited by other auditors whose report dated August 29, 1997 expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DEPCO as of June 30, 1998, and the revenues, expenses and changes in fund deficit and cash flows for the year 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 a report dated September 16, 1998 on our consideration of DEPCO's internal control over financial reporting and its compliance with laws and regulations.

September 16, 1998

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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, 1998 AND 1997

ASSETS

	1998	1997
Cash and cash equivalents (Note 4)	$ 4,556,456	$ 9,210,422
Accounts receivable	119,839	214,785
Loans, at fair value (Note 5)	25,981,631	32,342,361
Accrued interest receivable, loans	271,716	372,643
Investments (Note 4)	7,516,926	375
Other real estate owned, at fair value (Note 5)	2,707,877	3,676,497
Prepaid expenses and other assets	197,206	257,498
Due from receiverships (Note 6)	31,445	5,306,952
Fixed assets	77,147	77,491
	41,460,243	51,459,024
Restricted assets:		
Cash and cash equivalents (Note 4)	7,508,922	6,786,849
Investments (Notes 3 and 4)	20,662,351	20,017,443
State sales tax appropriations receivable, net (Note 7)	8,422,568	2,669,838
Investment income receivable	104,142	101,717
Total restricted assets	36,717,983	29,575,847
Deferred financing costs	3,172,284	5,836,695
	$ 81,350,510	$ 86,871,566

(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, 1998 AND 1997

LIABILITIES AND FUND DEFICIT

	1998	1997
Bonds payable (Note 8):		
Special obligation bonds payable:		
1991 Series A serial and capital appreciation bonds	$ 26,009,733	$ 28,392,869
1992 Series A serial and term bonds	92,026,371	96,610,374
1992 Series B serial and term bonds	21,781,108	84,225,742
1993 Series A serial and term bonds	46,652,478	90,608,117
Total bonds payable	186,469,690	299,837,102
Accounts payable and accrued expenses	1,269,691	1,350,324
Accrued interest payable, bonds	4,391,805	7,272,575
Accrued liabilities related to assisted transaction (Note 3)	540,000	540,000
Due to receiverships (Note 6)	1,724,667	1,874,380
Total liabilities	194,395,853	310,874,381
Commitments and contingencies (Notes 3, 10, and 12)		
Fund deficit (Note 11)	(113,045,343)	(224,002,815)
	$ 81,350,510	$ 86,871,566

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, 1998 AND 1997

	1998	1997
Operating revenues:		
Interest income on loans	$ 4,304,873	$ 4,785,021
Gain on sale of other real estate owned, net	421,608	549,382
Change in recorded value of:		
Loans	6,000,000	12,500,000
Other real estate owned	344,023	
Net increase in fair value of investments	251,794	
Gain from receiverships, net	11,562	609,521
Settlements, net (Notes 13)	89,331,196	12,769,020
Other income	70,587	147,172
Total operating revenues	100,735,643	31,360,116
Operating expenses:		
Change in recorded value of accounts receivable		261,064
Salaries and employee benefits	1,268,777	1,298,533
Professional services	1,912,974	2,665,916
Asset management expenses	1,496,967	1,602,376
Real estate owned and other direct asset-related expenses (Note 5)	2,084,384	2,360,242
Other expenses	454,438	608,760
Total operating expenses	7,217,540	8,796,891
Net operating income	93,518,103	22,563,225
Nonoperating revenue, investment income	1,893,898	1,730,156
Nonoperating expenses:		
Interest expense, bonds	14,510,255	19,268,801
Amortization of deferred financing costs	509,435	596,961
Total nonoperating expenses	15,019,690	19,865,762

(continued)

RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND DEFICIT (CONTINUED)

YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
Income before operating transfers	$ 80,392,311	$ 4,427,619
Operating transfers, net, state sales tax appropriations (Note 7)	34,755,341	30,074,508
Income before extraordinary item	115,147,652	34,502,127
Extraordinary item, gain (loss), net on defeasance of bonds payable (Note 9)	(4,190,180)	42,918
Net income	110,957,472	34,545,045
Fund deficit, beginning of year	(224,002,815)	(258,547,860)
Fund deficit, end of year	$ (113,045,343)	$ (224,002,815)

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 JUNE 30, 1998 AND 1997

	1998	1997
Cash flows from operating activities:		
Collections from loans	$ 16,445,772	$ 11,984,881
Proceeds from sale of real estate owned	2,476,505	3,278,803
Collections from receivership assets	519,097	3,222,262
Interest received on loans	4,405,799	4,830,514
State sales tax appropriations received	49,177,181	45,672,422
Remittance of excess state sales tax appropriations to state	(20,194,571)	(17,465,751)
Payments made to depositors	(103,091)	(2,142,748)
Payments to vendors, employees and consultants	(7,477,312)	(12,267,576)
Payments received from Blackstone Valley Loan and Investment Bank		625,000
Collection (application) of sales deposits for other real estate owned	(209,475)	165,603
Cash transferred from (to) receiverships	147,757	(190,959)
Proceeds from legal settlements, net	89,680,683	13,198,069
Other	9,566	40,872
Net cash provided by operating activities	134,877,911	50,951,392
Cash flows from noncapital financing activities:		
Purchased U.S. Treasuries and defeased special obligation bonds	(110,371,384)	(41,258,852)
Payments made on bonds	(8,425,000)	(8,000,000)
Interest payments on bonds	(13,997,256)	(18,917,269)
Short-term line of credit borrowings		200,000
Repayment of short-term line of credit borrowings		(200,000)
Net cash used in noncapital financing activities	(132,793,640)	(68,176,4121)
Cash flows from investing activities:		
Proceeds from maturities of investments	17,077,002	16,139,784
Purchases of investments	(24,765,536)	(16,871,517)
Investment income received	1,672,370	1,583,422
Net cash provided by (used in) investing activities	(6,016,164)	851,689

(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, 1998 AND 1997

	1998	1997
Net decrease in cash and cash equivalents	$ (3,931,893)	$ (16,373,040)
Cash and cash equivalents at beginning of year	15,997,271	32,370,311
Cash and cash equivalents at end of year	$ 12,065,378	$ 15,997,271
Reconciliation of net income to net cash provided by operating activities:		
Net income	$110,957,472	$ 34,545,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in recorded value of:		
Accounts receivable		261,064
Other real estate owned, net	(344,023)	
Loans	(6,000,000)	(12,500,000)
Net increase in fair value of investments	(251,794)	
Amortization of interest, capital appreciation bonds	509,435	596,961
Accretion of interest, capital appreciation bonds	756,864	706,723
Amortization of bonds premium and discount	187,717	239,938
Change in assets and liabilities:		
Increase in:		
State sales tax appropriation receivable	(5,772,730)	(1,867,837)
Investments	(40,182)	
Investment income receivable	(2,425)	(25,584)
Decrease in:		
Investments		40,690
Prepaid expenses and other assets	60,292	466,723
Accounts receivable	94,946	536,621
Accrued interest receivable, bonds	100,927	45,493
Loans	12,360,730	13,359,934
Other real estate owned, net	1,312,643	1,233,612
Fixed assets	344	77,439
Receivership assets	5,275,507	1,855,285
Accrued interest payable, bonds	(431,583)	(595,129)
Accounts payable and accrued expenses	(80,633)	(2,872,325)
Due to receiverships	(149,713)	(2,263,191)
	118,543,794	33,841,462

(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, 1998 AND 1997

	1998	1997
Other reconciling items included in investing and noncapital financing activities:		
Interest payments on bonds	$ 13,997,256	$ 18,917,269
Loss (gain) on bond defeasance	4,190,180	(42,918)
Investment income received	(1,672,370)	(1,583,422)
Interest income, investments in escrow	(180,949)	(180,999)
	16,334,117	17,109,930
Net cash provided by operating activities	$ 134,877,911	$ 50,951,392

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

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 and U.S. Treasury Bills are reported at amortized cost which approximates fair value.

2. Summary of significant accounting policies (continued):

Investments:

Effective July 1, 1997, DEPCO adopted Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which establishes fair value standards of accounting and financial reporting for applicable investments held by governmental entities.

Investments include U.S. Government securities, securities of U.S. Government agencies, guaranteed investment contracts, and a First Bank and Trust debenture.

In accordance with GASB Statement No. 31, DEPCO reports participating interest earning investment contracts at fair value. Money market investments having a remaining maturity of one year or less at time of purchase are reported at amortized cost provided that the fair value of such investments is not significantly affected by the impairment of the credit standing of the issuer or other factors. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 1998 AND 1997

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 of Rhode Island. 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.

2. Summary of significant accounting policies (continued):

Reclassifications:

Certain prior period amounts have been reclassified to conform with the current year presentation.

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 is due in May 1999 and was noninterest-bearing for the first three years.

Further, DEPCO has 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 of approximately $109,898 and $568,541 at June 30, 1998 and 1997, respectively. Additionally, DEPCO has recorded a $540,000 loss reserve which is included in accrued liabilities related to assisted transaction. The debenture and escrow account are pledged as collateral for any potential deficiency. Any deficiencies are limited to amounts remaining in the debenture and the escrow account.

The $3,000,000 variable rate First Bank debenture due May 1, 1999 (subject to a three-year extension which is currently limited to one-half of the outstanding balance) was noninterest-bearing until May 1, 1995 and currently bears interest at a rate equal to the five-year U.S. Treasury bond rate plus 1% thereafter (the five-year U.S. Treasury Bond Rate plus 1% as calculated per the agreement was 6.63% and 7.57% at June 30, 1998 and 1997, respectively). The debenture is only transferable to another agency or instrumentality of the State.

4. Cash, cash equivalents and investments:

At June 30, 1998 and 1997, the carrying amount of DEPCO's cash in banks consisted of the following:

	1998	1997
Unrestricted	$ 16,095	$ (28,048)
Restricted	3,824	1,067
Total cash	$ 19,919	$ (26,981)

The corresponding bank balances at June 30, 1998 and 1997 were $160,580 and $358,987, of which $131,759 and $174,691, respectively, was covered by federal deposit insurance and $28,821 and $184,296, 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 1998 AND 1997

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.

	1998			
	Category 1	Category 3	Not categorized	Reported amount
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Goverment 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, Goverment 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

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

1997

	Category 1	Category 3	Not categorized	Reported amount
Unrestricted cash equivalents, repurchase agreements collateralized by U.S. Goverment securities	$ - 0 -	$ 9,238,470	$ - 0 -	$ 9,238,470
Restricted cash equivalents, U.S. Treasury bills	6,785,782	- 0 -	- 0 -	6,785,782
Unrestricted investments, Goverment securities	- 0 -	- 0 -	375	375
Restricted investments:				
Galaxy money market funds			158,468	158,468
Guaranteed investment contract - Berkshire Hathaway, Inc.			3,368,090	3,368,090
U.S. Treasury bills	13,490,885			13,490,885
First Bank and Trust variable rate debenture			3,000,000	3,000,000
	13,490,885	- 0 -	6,526,558	20,017,443
Total cash equivalents and investments	$ 20,276,667	$ 9,238,470	$ 6,526,933	$ 36,042,070

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, 1998 and 1997; 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, 1998 and 1997, the balance of the special revenue fund was $11,694,348 and $7,741,807, 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, 1998 and 1997, the debt service fund was comprised of the following (see Note 8):

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

· Debt Service Fund (continued)

	1998	1997
Special Obligation Bonds		
1991 Series A	$ 3,466,200	$ 3,368,090
1992 Series A	6,878,631	6,750,095
1992 Series B	1,128,476	2,682,215
1993 Series A	1,117,821	2,234,372

· 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, 1998 and 1997, no rebate fund was required.

5. Loans and other real estate owned:

Loans:

Loans consist of the following at June 30, 1998 and 1997:

	1998	1997
Principal balances outstanding under borrowers' obligations:		
Commercial loans	$ 2,411,045	$ 2,647,790
Land	1,785,318	1,961,554
Real estate:		
Residential	22,472,556	27,435,889
Commercial	28,323,055	32,100,816
Consumer and other	3,165,731	3,801,364
	58,157,705	67,947,413
Less fair value adjustment	32,176,074	35,605,052
Loans at estimated fair value	$ 25,981,631	$ 32,342,361

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

Loans on nonaccrual status were $16,520,749 and $22,624,475 at June 30, 1998 and 1997, respectively.

Other real estate owned:

Other real estate owned consists of the following at June 30, 1998 and 1997:

	1998	1997
Residential	$ 52,849	$ 1,000,115
Commercial real estate	1,734,548	1,387,467
Land	920,480	1,288,915
	$ 2,707,877	$ 3,676,497

Real estate owned and other direct asset-related expenses include rental income and other income of $159,771 and $179,388 for the years ended June 30, 1998 and 1997, respectively.

6. Due to/from receiverships:

Due to/from receiverships is comprised of the following:

	1998	1997
Due from receiverships:		
Cash and cash equivalents	$ 15,368	$ 134,579
Loans		5,000,725
Other real estate owned	1	121,451
Other assets	16,076	50,197
Total due from receiverships	$ 31,445	$ 5,306,952
Due to receiverships:		
Deposit liabilities	$ 1,723,864	$ 1,873,936
Other liabilities	803	444
Total due to receiverships	$ 1,724,667	$ 1,874,380

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 $31,445 and $5,306,952 at June 30, 1998 and 1997, 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 $1,724,667 and $1,874,380 at June 30, 1998 and 1997, 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.

6. Due to/from receiverships (continued):

During 1998 and 1997, approximately $127,100 and $1,993,000, respectively, was transferred from due to receivership for deposit liabilities to DEPCO, of which, approximately $22,400 and $78,000, respectively, was offset against loans to those individuals, and the remaining amount subsequently paid to depositors.

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 fiscal years ended June 30, 1998 and 1997, the portion of State sales tax appropriated for DEPCO amounted to $49,755,341 and $45,874,508, 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 fiscal year 1998 and $15,800,000 of the fiscal year 1997 sales tax appropriation that was available after paying debt service on the Special Obligation Bonds. Accordingly, state sales tax appropriations receivable at June 30, 1997 is reported net of amounts due to the State of $5,194,571.

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 1999, 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 1999 appropriation is estimated at $52,500,000.

8. Bonds payable:

Bonds payable at June 30, 1998 and 1997 are comprised of the following:

	1998	1997
Special obligation bonds (continued):		
1991 Series A:		
6.95%-7% capital appreciation bonds plus accretion of $4,387,809 and $3,630,945 at June 30, 1998 and 1997, due in varying amounts to August 1, 2008	$ 11,424,733	$ 10,667,869
6.05%-6.375% serial bonds in 1998 and 5.95%-6.375% in 1997, due in varying amounts to August 1, 2001, interest payable semiannually on February 1 and August 1	14,585,000	17,725,000
Total 1991 Series A	26,009,733	28,392,869
1992 Series A:		
6.55% term bonds, due in varying amounts to August 1, 2007, interest payable semiannually on February 1 and August 1	28,200,000	28,200,000
5.6%-6.5% serial bonds in 1998 and 5.5%-6.5% in 1997, due in varying amounts to August 1, 2007, interest payable semiannually on February 1 and August 1	64,040,000	68,655,000
	92,240,000	96,855,000
Less discount (net of accumulated accretion of $287,095 and $213,642 at June 30, 1999 and 1998, respectively)	213,629	244,626
Total 1992 Series A	92,026,371	96,610,374

(continued)

8. Bonds payable (continued):

	1998	1997
Special obligation bonds (continued):		
1992 Series B:		
6% term bonds due in varying amounts to August 1, 2017, interest payable semiannually on February 1 and August 1		$ 29,665,000
4.50%-5.70% serial bonds in 1998 and 4.3%-5.8% in 1997, due in varying amounts to August 1, 2008, interest payable semiannually on February 1 and August 1	$ 22,405,000	57,315,000
	22,405,000	86,980,000
Less discount (net of accumulated accretion of $4,959,842 and $2,829,476 at June 30, 1998 and June 30, 1997 respectively)	623,892	2,754,258
Total 1992 Series B	21,781,108	84,225,742
1993 Series A:		
5.625%-5.875% term bonds due in varying amounts to August 1, 2003, interest payable semiannually on February 1 and August 1	43,970,000	87,945,000
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
	46,670,000	90,645,000
Less discount (net of accumulated accretion of $84,665 and $65,304 at June 30, 1998 and June 30, 1997 respectively)	17,522	36,883
Total 1993 Series A	46,652,478	90,608,117
Total bonds payable	$186,469,690	$299,837,102

(continued)

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, 1998:

Fiscal year ending June 30,	Principal	Interest	Total	
Special obligation bonds:				
1999	$ 8,900,000	$ 10,287,490	$ 19,187,490	
2000	9,400,000	9,761,170	19,161,170	
2001	10,545,000	9,176,266	19,721,266	
2002	11,205,000	8,527,888	19,732,888	
2003	11,880,000	7,856,770	19,736,770	
2004	12,550,000	7,161,571	19,711,571	
2005	13,270,000	6,413,198	19,683,198	
2006	10,865,683	8,930,631	19,796,314	
2007	11,291,868	8,488,944	19,780,812	
2008	11,748,334	8,007,490	19,755,824	
2009	12,271,039	7,458,868	19,729,907	
2010	10,415,000	3,226,669	13,641,669	
2011	11,080,000	2,531,094	13,611,094	
2012	11,805,000	1,825,097	13,630,097	
2013	12,495,000	1,119,094	13,614,094	
2014	13,215,000	379,931	13,594,931	
Total special obligation bonds	$ 182,936,924		$ 101,152,171	$ 284,089,095

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

8. Bonds payable (continued):

The following is a summary of the changes in the par value of bonds payable for the year ended June 30, 1998:

Description	July 1, 1997	Payments	Defeased bonds	June 30, 1998
Special obligation bonds	$ 299,241,924	$ 8,425,000	$ 107,880,000	$ 182,936,924

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).

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 capital appreciation bonds cannot be redeemed prior to maturity.

The 1992 Series A serial special obligation bonds maturing on August 1, 1998 through August 1, 2007 are not subject to redemption.

The 1992 Series B serial special obligation serial bonds maturing on or before August 1, 2008 are not subject to optional redemption before their respective maturity dates.

8. Bonds payable (continued):

The 1993 Series A 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 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.

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 - 1998:

During the fiscal 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

9. Defeasance of debt (continued):

Defeased bonds - 1998 (continued):

These bonds are considered defeased " in- substance," 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.

Defeased bonds - 1997:

During the fiscal year ended June 30, 1997, 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 $41,315,000 of the 1993 Series A special obligation bonds as follows:

Term bonds maturing 2019	$ 5,000,000
Term bonds maturing 2020	6,665,000
Term bonds maturing 2021	7,650,000
Term bonds maturing 2022	22,000,000
	$ 41,315,000

These bonds are considered defeased "in-substance," and the liability has been removed from the statement of assets, liabilities and fund deficit. The defeasance was funded through the liquidation of assets, the released portion of the AMRESCO escrow reserve and net settlements.

The defeasance resulted in the recognition of an accounting gain of $42,918. DEPCO reduced its aggregated principal and interest payments by approximately $103,394,000 over the next 26 years.

At June 30, 1998, $513,400,000 of DEPCO's special obligation bonds outstanding are considered defeased "in-substance." The trust account holding assets for all future debt service on these bonds and the liability for these bonds are not included in DEPCO's financial statements.

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 IRASEP. 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, 1998 and 1997, DEPCO contributed approximately $209,200 and $217,500, respectively, to the IRA-SEP.

11. Fund deficit:

Fund deficit is comprised of the following at June 30, 1998 and 1997:

	1998	1997
Cumulative excess of expenses over revenue from liquidation activities	$ (357,228,474)	$ (433,430,605)
Cumulative net operating transfers, state sales tax appropriations	244,183,131	209,427,790
	$ (113,045,343)	$ (224,002,815)

12. Other communications 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.

12. Other commitments and contingencies (continued):

DEPCO has available a $3,000,000 line of credit agreement with Citizens Bank. This line of credit agreement expires on November 30, 1998. Certain assets of DEPCO are pledged as collateral for any borrowings under this agreement. At June 30, 1998 and 1997, no amounts are outstanding under this line of credit agreement.

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, 1998, DEPCO settled several professional malpractice suits. The settlements, net of attorney fees and costs of $16,347,173, totaled $89,331,196.

During the year ended June 30, 1997, DEPCO settled litigation against various directors and officers of certain failed institutions and RISDIC, and settled a professional malpractice suit. The settlements, net of attorney fees and costs of $3,009,163, totaled $12,769,020.

14. Year 2000 costs:

Because many computerized systems use only two digits to record the year in date fields (for example, the year 1998 is recorded as 98), such systems may not be able to accurately process dates ending in the year 2000 and after.

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 needs require DEPCO to upgrade some of its computer hardware. The cost of the new equipment is estimated at $50,000.

15. Subsequent events:

On August 27, 1998, DEPCO defeased $25,710,000 of principal balances of the 1993 Series A Special Obligation Bonds.

Independent Auditor's 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, 1998, and have issued our report thereon dated September 16, 1998, 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.

Independent Auditor's 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

This report is intended for the information 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. However, this report is a matter of public record and its distribution is not limited.

September 16, 1998