

RHODE ISLAND AIRPORT CORPORATION
(A Component Unit of the Rhode Island Economic
Development Corporation)

FINANCIAL STATEMENTS

AS OF JUNE 30, 2008 AND 2007

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

AND

SUPPLEMENTAL REPORT

RHODE ISLAND AIRPORT CORPORATION
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Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rhode Island Airport Corporation
Warwick, Rhode Island

We have audited the accompanying financial statements of the Rhode Island Airport Corporation (RIAC), a component unit of the Rhode Island Economic Development Corporation (EDC), which is a component unit of the State of Rhode Island, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of RIAC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Rhode Island Airport Corporation as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of RIAC'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 and compliance and the results of that testing, and not to provide an opinion on the 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 presented on pages 3 through 18 and the schedule of funding progress on page 47 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audits were conducted for the purpose of forming an opinion on RIAC's financial statements. The supplemental schedule of travel and entertainment expenses for the year ended June 30, 2008 on pages 48 through 50 is presented for purposes of additional analysis and is not a required part of the 2008 financial statements. The information included in this schedule has been subjected to the auditing procedures applied in the audit of the 2008 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 financial statements taken as a whole.

Carlton, Charnock & Rosen, LLP

Providence, Rhode Island
September 29, 2008

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion & Analysis (MD&A) of the Rhode Island Airport Corporation (RIAC) serves as an introduction and overview to the reader of the audited financial statements for the fiscal years ended June 30, 2008 and June 30, 2007. The information contained in the MD&A should be considered in conjunction with the audited financial statements.

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

RHODE ISLAND AIRPORT CORPORATION

RIAC was created by the Rhode Island Economic Development Corporation (EDC) on December 9, 1992 as a public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State of Rhode Island (State) and EDC and having many of the same powers and purposes as EDC. RIAC is a component unit of the EDC, which is a component unit of the State. RIAC is empowered, pursuant to its Articles of Incorporation and Rhode Island law, to undertake the planning, development, management, acquisition, ownership, operation, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility", as defined in Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Act"). "Airport facility" is defined in the Act in part as "developments consisting of runways, hangars, control towers, ramps, wharves, bulkheads, buildings, structures, parking areas, improvements, facilities, or other real or personal property, structures, parking areas, improvements, facilities, or other real or personal property, necessary, convenient, or desirable for the landing, takeoff, accommodation, and servicing of aircraft of all types, operated by carriers engaged in the transportation of passengers or cargo, or for the loading, unloading, interchange, or transfer of the passengers or their baggage, or the cargo, or otherwise for the accommodation, use or convenience of the passengers or the carriers or their employees (including related facilities and accommodations at sites removed from landing fields or other areas), or for the landing, taking off, accommodation, and servicing of aircraft owned or operated by persons other than carriers".

Pursuant to the State Lease Agreement, RIAC leases T.F. Green Airport (Airport) and the five general aviation airports (collectively, Airports) from the State for a term ending June 30, 2038 at a rental of \$1.00 per year. RIAC has also acquired all of the personal property and other assets of the State located at or relating to the Airports. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's (RIDOT) responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation (G.O.) Bonds related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

RIAC operates on a fiscal year basis beginning on July 1st and continuing through the following June 30th of each year. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes.

RIAC does not have the authority to issue bonds or notes or borrow money without the approval of EDC. In addition, RIAC does not have the power of eminent domain with respect to real property. RIAC does have certain contractual rights under the Lease Agreement to require the State to exercise powers of eminent domain for the benefit of RIAC.

The Board of Directors of RIAC, consisting of seven members, annually approves an operating and maintenance budget, as well as a capital budget for the fiscal year. The Board of Directors relies upon the advice and recommendation of RIAC's Finance & Audit Committee, which consists of three members of the full Board of Directors.

T.F. GREEN AIRPORT

RIAC operates T. F. Green Airport, which is Rhode Island's only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport.

The terminal complex including access roads and related improvements was completed in September 1996 and replaced the prior terminal which was demolished. The terminal building was named the Bruce Sundlun Terminal at T.F. Green Airport (Terminal). The Terminal at the time of its opening was a two level facility of approximately 302,000 square feet including fifteen jet gates. There was also one commuter aircraft parking position. In 1998, the Terminal was expanded to add four new jet gates and one new commuter aircraft parking position. As a result of the expansion, the Terminal space increased to approximately 350,000 square feet and a capacity of nineteen jet gates and two commuter gates for a total of twenty-one gates.

The Terminal has passenger concourses that extend to the north and south of the central terminal area. Facilities for departing passengers are located on the second level where ticket counters, baggage checks, departure lounges and concessions such as restaurants and news/gift stands are located. On the second level, passengers pass through the central terminal area and then through the security checkpoint. From there, departing passengers take the concourse to the appropriate hold room and gate.

A major Terminal Improvement Project (TIP) at the Airport was initiated in March 2006 to minimize congestion, ease circulation, improve security procedures, and enhance concessions. The expansion and improvement project increased the Terminal to approximately 412,000 square feet. Airlines serving the Airport currently lease approximately 89,000 square feet of exclusive and preferential use area and approximately 45,000 square feet of common use area. A description of this project and its impacts is included in the "SIGNIFICANT PROJECTS – AIRPORTS" section of this document.

A total of approximately 9,530 public parking spaces are available on Airport property and/or leased space. They are divided as follows: a short term lot in front of the terminal (Lot D) with approximately 490 spaces; a parking garage with approximately 1,320 spaces (Garage A); a garage with 710 spaces (Garage B); a newly leased garage with approximately 1,510 spaces (Garage C); and an express lot with approximately 4,300 spaces with an additional overflow capacity of 1,200 spaces that can be put into service, if needed (Lot E). Garage A, Garage B, Garage C, Lot D and Lot E (RIAC controlled parking facilities) are operated pursuant to a parking management agreement with Standard Parking Corporation.

RIAC leased Garage C from New England Parking, LLC in December 2007 for a ten year term through November 30, 2017. Per the terms of the lease agreement RIAC is responsible for all Garage C operations and maintenance costs and for the collection of all revenues from Garage C.

Public vehicular access is provided by a roadway system that directs vehicular traffic from Post Road and Interstate Route 95 to the Terminal curbs. These roads connect to a dual-level curb system accommodating arriving and departing passengers. When approaching the Terminal, the roadway divides into an upper level for departing passengers and a lower level for arriving passengers. The upper level includes four lanes and a curb to provide an unloading area for private vehicles, taxis, limousines, and rental car company and hotel shuttles. The lower level roadway has seven lanes and curb designated as loading zones for private vehicles and various commercial vehicles such as buses, courtesy vans, taxis and limousines. The roadway system is designed with clear signage and a one-way circulation pattern that separates Airport traffic from local roads.

The present airfield configuration consists of two intersecting runways. Runway 5/23 (7,166 feet by 150 feet wide) is the primary instrument air carrier and commuter runway. This runway is capable of serving aircraft as large as the Boeing 737, the McDonnell Douglas MD80 and the Boeing 757 series. Runway 16/34 (6,081 feet by 150 feet wide) is used as the secondary air carrier and commuter runway.

Both Runway 5/23 and Runway 16/34 are equipped with high intensity runway lighting systems. Runway 5/23 has centerline lighting and Runway 5 has touchdown zone lights. Precision instrument landing systems approaches are operational on Runway 5 (Cat III) and Runways 23 and 34 (Cat I). Non-precision instrument approaches can be made to Runway 16.

Other facilities at the Airport include fuel storage areas, facilities for fixed base operators, certain rental car service facilities and air freight and air cargo facilities, various hangers and other aviation-related facilities.

There are five separate locations for aircraft parking at the Airport. The two primary areas are located along the north and west perimeters of the Airport. On the west side of the Airport, adjacent to and east of the terminal building is the passenger terminal apron. The majority of this apron is used for air carrier activity. The south portion of the passenger terminal apron is used for air carrier belly cargo activities and is supported by a multi-tenant cargo building. The ramp area on the north side of the Airport is currently used for general aviation, air cargo operations, fixed base operators, and RIAC field operations.

Air Carriers Serving the Airport

As of June 2008, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

AIRLINES SERVING THE AIRPORT

<u>Majors (9)</u>	<u>Doing Business As:</u>
American Eagle	
Atlantic Southeast Airlines	Delta Connection
Continental Airlines	
Comair	Delta Connection
Mesa Airlines	United Express
Northwest Airlines	
Southwest Airlines	
United Airlines	
US Airways	
<hr/>	
<u>Nationals (6)</u>	
Air Wisconsin	US Airways Express
ExpressJet Airlines	Continental Express
GoJet Airlines	United Express
PSA Airlines	US Airways Express
Mesaba Airlines	Northwest Airlink
Trans States Airlines	United Express
<hr/>	
<u>Commuters (5)</u>	
Cape Air ¹	
Chautauqua Airlines	Continental Express & US Airways Express
Colgan Air	US Airways Express
Freedom Airlines	Delta Connection
Republic Airlines	US Airways Express
<hr/>	
<u>Foreign Flag (1)</u>	
Air Georgian	Air Canada
<hr/>	
<u>All Cargo Carriers (3)</u>	
DHL	
FedEx	
United Parcel Service	

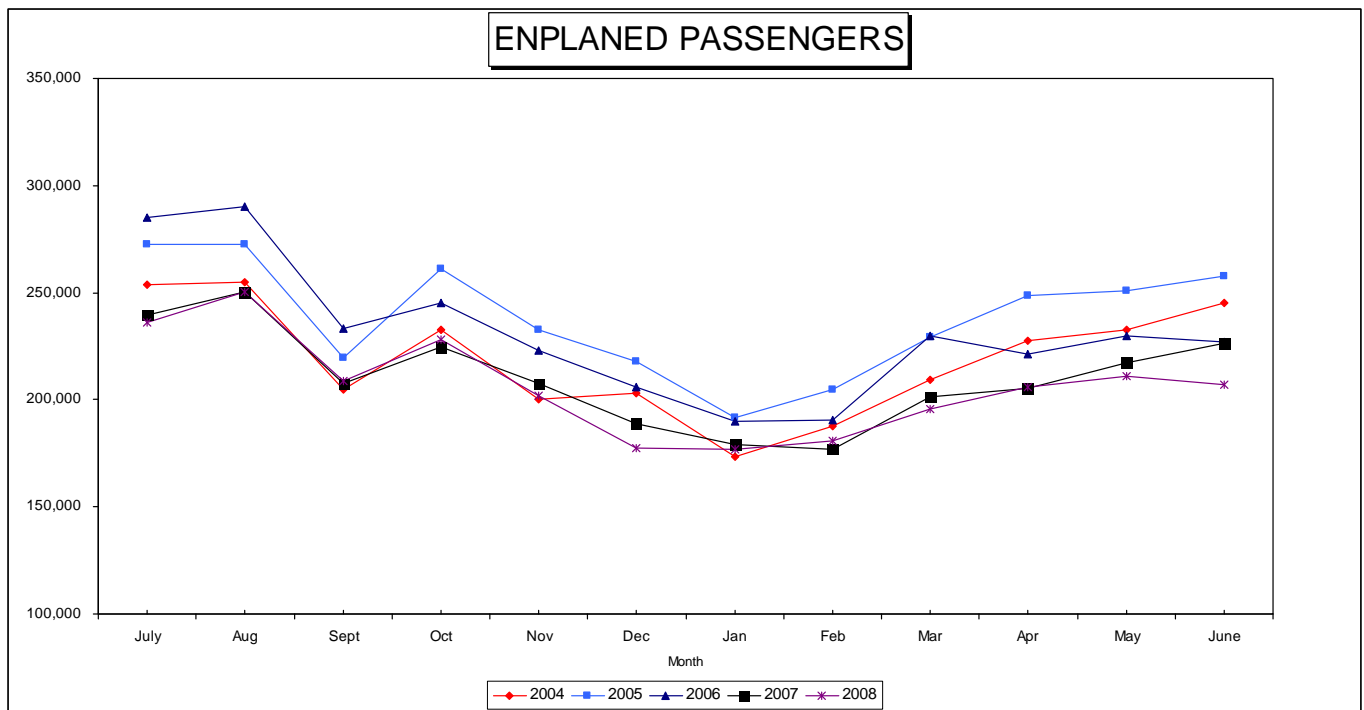
¹ Cape Air offers seasonal service to Martha's Vineyard, Nantucket, and Hyannis

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for federal fiscal year 2006 according to the latest published data in the “Terminal Area Forecast Summary” produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 57th busiest in federal fiscal year 2005, 58th busiest in federal fiscal years 2003 and 2004, and 56th in federal fiscal year 2002.

Actual enplaned passengers for fiscal year 2008 were 45,038 below 2007, resulting in a decrease of 1.8%. The decline in enplanements at the Airport is attributable to the cessation of services by Spirit Airlines in April 2007 and the reduction in available seat capacities as several mainline carriers continue to shift their service to regional jet and commuter affiliates.

The following chart and table depict the historical trend of enplaned passenger traffic at T. F. Green Airport for the fiscal years 2004 through 2008.



Fiscal Year	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
2004	253,794	255,137	204,810	232,669	200,222	202,879	173,406	187,539	209,399	227,713	232,927	245,166	2,625,661
2005	272,433	272,560	219,349	261,121	232,940	218,161	191,464	204,545	229,466	248,521	250,641	257,716	2,858,917
2006	284,959	290,373	233,050	245,159	222,783	205,889	189,718	190,685	229,834	221,140	230,005	226,837	2,770,432
2007	239,299	250,221	207,632	224,586	207,836	188,572	179,087	176,893	201,645	205,499	217,210	226,512	2,524,992
2008	236,080	250,601	208,814	228,225	202,108	177,188	176,863	180,582	195,527	205,645	211,244	207,077	2,479,954

Airport Use and Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2008:

- American Airlines
- Continental Airlines
- Delta Airlines
- Northwest Airlines
- Southwest Airlines
- United Airlines
- US Airways

The term of the Airline Agreements extend through June 30, 2010, and establish procedures for the annual adjustment of signatory airline terminal rates and aircraft landing fees collected for the use and occupancy of terminal and airfield facilities.

The Airline Agreements provide for the calculation of the signatory terminal rental rate. The fixed component is \$26.80 per square foot for the life of the agreement while the variable operation and maintenance component was calculated to be \$16.20 per square foot at the Date of Beneficial Occupancy (DBO) of September 23, 1996. This variable rate component has been escalated annually on each July 1st thereafter, in accordance with increases in the Producer Price Index (PPI). The signatory terminal rental rate may be increased to provide for the payment of certain debt service coverage and operating costs associated with projects approved by a Majority-in-Interest (MII) of Signatory Airlines. This MII is defined as any numerical majority of Signatory Airlines which, in the aggregate, paid fifty percent (50%) or more of landing fees paid by all Signatory Airlines for the preceding fiscal year.

Landing fees are calculated by multiplying the maximum certificated gross landed weight in 1,000 pound units of each aircraft by the applicable landing fee rate. Of the Signatory Airline landing fees, \$3,142,100 was considered to be the operation and maintenance component at the DBO. This component has been escalated annually on each July 1st thereafter in accordance with increases in the PPI. Signatory Airline landing fees may be increased to provide for the payment of debt service coverage and operating costs associated with projects approved by a MII of the Signatory Airlines. At the beginning of each fiscal year, RIAC calculates a projected landing fee per 1,000 pounds based on activity estimates provided by the Signatory Airlines. At the end of the fiscal year, RIAC recalculates the landing fee per 1,000 pounds based on actual activity. Per the terms of the Airline Agreements, Non-signatory Airline landing fees are based on a landing fee rate at least equal to that of the Signatory Airlines.

Certain Signatory Airlines pay "Airline Equipment Charges". These charges equal the actual debt service plus twenty-five percent (25%) rolling coverage associated with the financing by RIAC in 1993 of certain equipment for the new terminal. Such equipment included loading bridges, a baggage conveyor system and certain tenant furnishings and finishes such as holdroom seating and other items. Revenues derived from Airline Equipment Charges are fixed at approximately \$575 thousand per year through fiscal year 2010.

The landing fee rate per thousand pounds of landed weight for Signatory air carriers and the terminal rental rates are as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Landing fee rate per thousand pounds	\$3.46	\$3.60	\$2.90
Terminal rental rates	\$85.57	\$61.07	\$59.08

GENERAL AVIATION AIRPORTS

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below.

North Central Airport

Located approximately fifteen miles north of the Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Lincoln.

Quonset Airport

This airport is located in North Kingstown, approximately ten miles south of the Airport. The Rhode Island Air National Guard moved its operations from the Airport to Quonset Airport in 1986. The Rhode Island Army National Guard also maintains a presence at Quonset Airport. Quonset Airport has additional industrial facilities which are leased to several companies by the Quonset Development Corporation (QDC), a subsidiary of the EDC. Quonset Airport is classified by the FAA as a reliever airport.

Westerly Airport

This airport is located in Westerly, approximately thirty-five miles southwest of the Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

Newport Airport

This airport is located in Middletown, approximately seventeen miles southeast of the Airport. Newport Airport is classified as a general aviation airport.

Block Island Airport

Situated on Block Island just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

FINANCIAL STATEMENTS

RIAC's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). RIAC is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets, except land, are capitalized and depreciated over their useful lives. See the notes to the financial statements for a summary of RIAC's significant accounting policies.

The statement of net assets presents information on all of RIAC's assets and liabilities with the difference between the assets and liabilities reported as net assets. Over time, increases or decreases in RIAC's net assets may serve as a useful indicator of whether the financial position of RIAC is improving or deteriorating. However, non-financial factors should also be considered when evaluating RIAC's financial position. The statement of revenues, expenses and change in net assets presents information on how RIAC's net assets changed during the year.

SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues	\$ 55,453,042	\$ 48,734,566	\$ 49,004,434
Operating Expenses	<u>(50,784,105)</u>	<u>(47,205,683)</u>	<u>(44,506,717)</u>
Operating Income	4,668,937	1,528,883	4,497,717
Non-Operating Revenues, net	<u>9,379,838</u>	<u>3,333,223</u>	<u>1,844,492</u>
Income before Capital Contributions	14,048,775	4,862,106	6,342,209
Capital Contributions	<u>22,353,876</u>	<u>11,117,823</u>	<u>7,312,152</u>
Change in Net Assets	<u>\$ 36,402,651</u>	<u>\$ 15,979,929</u>	<u>\$ 13,654,361</u>

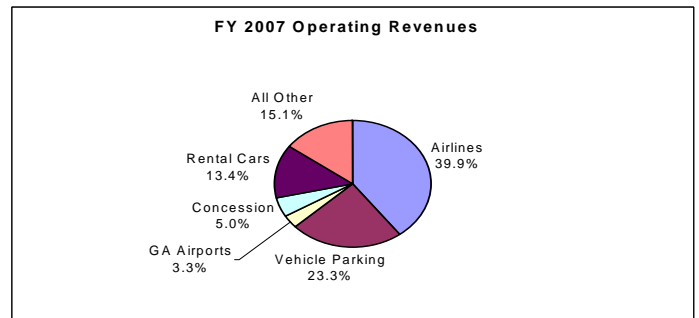
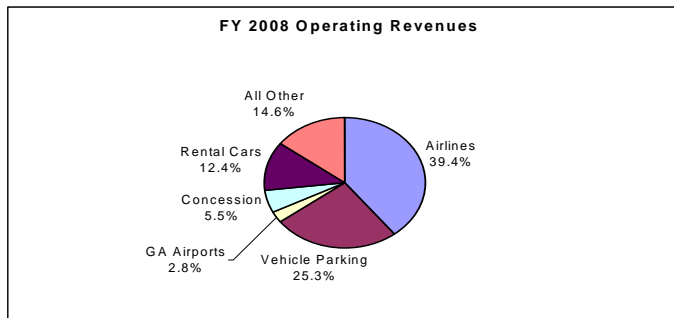
FINANCIAL POSITION SUMMARY

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets	\$ 92,969,459	\$ 70,490,448	\$ 70,529,511
Noncurrent assets	116,857,101	133,815,518	191,349,338
Capital assets, net	<u>386,218,855</u>	<u>341,988,906</u>	<u>268,639,428</u>
Total assets	<u>596,045,415</u>	<u>546,294,872</u>	<u>530,518,277</u>
LIABILITIES			
Current liabilities	29,636,145	39,964,308	31,295,995
Long term obligations	<u>341,688,005</u>	<u>318,011,950</u>	<u>326,883,597</u>
Total liabilities	<u>371,324,150</u>	<u>357,976,258</u>	<u>358,179,592</u>
NET ASSETS			
Invested in capital assets, net of related debt	116,678,979	75,799,077	51,227,226
Restricted	79,366,316	87,587,885	98,675,876
Unrestricted	<u>28,675,970</u>	<u>24,931,652</u>	<u>22,435,583</u>
TOTAL NET ASSETS	<u>\$ 224,721,265</u>	<u>\$ 188,318,614</u>	<u>\$ 172,338,685</u>

OPERATING REVENUES

The following chart shows the major sources and the percentage of total operating revenues for the fiscal years ended June 30, 2008, 2007 and 2006.

	2008	% of Total Revenues	2007	% of Total Revenues	2006	% of Total Revenues
OPERATING REVENUES						
Airlines	\$ 21,841,859	39.4%	\$ 19,423,825	39.9%	\$ 17,822,381	36.4%
General Aviation & Cargo	658,534	1.2%	394,128	0.8%	317,650	0.6%
Concession	3,030,848	5.5%	2,454,239	5.0%	2,621,130	5.3%
Fuel Flowage Fees	1,116,263	2.0%	982,605	2.0%	1,062,056	2.2%
Non-Airline Rent	1,070,517	1.9%	834,489	1.7%	1,227,911	2.5%
Off Airport Courtesy Fees	701,633	1.3%	829,340	1.7%	725,394	1.5%
Other Revenues	2,834,399	5.1%	2,690,751	5.5%	1,965,244	4.0%
General Aviation Airports	1,560,897	2.8%	1,608,381	3.3%	1,556,089	3.2%
Rental Cars	6,891,582	12.4%	6,539,947	13.4%	6,593,580	13.5%
Tiedowns, Hangar & Miscellaneous	1,088,589	2.0%	1,006,571	2.1%	1,019,361	2.1%
Rental Revenues - Airport Support	635,573	1.1%	619,419	1.3%	606,469	1.2%
Vehicle Parking	14,022,348	25.3%	11,350,871	23.3%	13,487,169	27.5%
TOTAL OPERATING REVENUES	\$ 55,453,042	100.0%	\$ 48,734,566	100.0%	\$ 49,004,434	100.0%



Revenues for fiscal year 2008 increased by \$6.719 million over fiscal year 2007 revenues. Overall revenues decreased approximately \$270 thousand from fiscal year 2006 to 2007.

Increases in fiscal year airline revenues over the prior years were \$2.418 million and \$1.601 million for 2008 and 2007, respectively. These increases relate to a shift to non-signatory activity, changes in the Producer Price Index (PPI), and the costs associated with approved MII projects included in Airline rates and charges.

Non-Airline rental revenues increased by \$236 thousand due to additional terminal space rentals to concessionaires at T.F. Green Airport. The decrease in fiscal year 2007 from the prior year of approximately \$393 thousand relates to the expiration of a lease agreement with Johnson & Wales University for a building adjacent to T.F. Green Airport.

Other revenues increased by \$144 thousand over fiscal year 2007. This increase is driven by audits of revenue contracts performed by RIAC's internal audit department. Increases in fiscal year 2007 of \$726 thousand over the prior year relate to the adjustment of bad debt reserves based on favorable collection outcomes from airlines previously in bankruptcy.

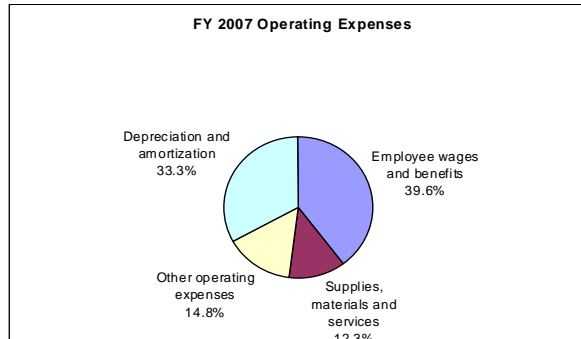
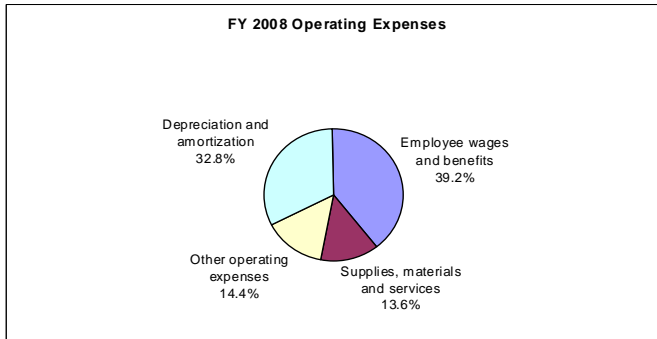
Parking revenues for fiscal year 2008 increased by \$2.671 million over fiscal year 2007 primarily attributable to a new parking management agreement that was entered into following the expiration of the Airport's prior concession agreement and the types of parking services offered. Effective December 1, 2007, RIAC controlled parking facilities are managed by Standard Parking Corporation (Standard), a national provider of parking facility management services, pursuant to the terms of a parking management agreement. Under this agreement, RIAC reimburses Standard for all direct operating expenses and a management fee. As part of a separate agreement,

RIAC has leased Garage C, a 1,510 space parking facility from a third party for a term of ten years. Effective December 1, 2007, Garage B opened as a general parking facility. Fiscal year 2007 parking revenues were \$2.136 million below the prior year reflecting the impact of decreased enplanements and the operation of Garage B as a valet parking garage.

OPERATING EXPENSES

The following chart illustrates major categories of operating expenses for the fiscal years ended June 30, 2008, 2007 and 2006.

	2008	% of Total Operating Expenses	2007	% of Total Operating Expenses	2006	% of Total Operating Expenses
Employee wages and benefits	\$ 19,895,570	39.2%	\$ 18,704,237	39.6%	\$ 17,798,460	40.0%
Supplies, materials and services	6,904,356	13.6%	5,804,411	12.3%	4,947,240	11.1%
Other operating expenses	7,348,000	14.4%	6,971,919	14.8%	6,795,268	15.3%
Depreciation and amortization	<u>16,636,179</u>	32.8%	<u>15,725,116</u>	33.3%	<u>14,965,749</u>	33.6%
TOTAL OPERATING EXPENSES	<u><u>\$ 50,784,105</u></u>	100.0%	<u><u>\$ 47,205,683</u></u>	100.0%	<u><u>\$ 44,506,717</u></u>	100.0%



Employee wages and benefits for fiscal year 2008 and fiscal year 2007 increased \$1.191 million and \$906 thousand, respectively over prior year amounts by expected increases in wages, insurances and certain benefits.

Supplies, materials and services for fiscal year 2008 increased by approximately \$1.1 million over fiscal year 2007 amounts due to operating and maintenance costs associated with the In-Line Explosive Detection System (EDS) baggage handling system and third party costs related to the new Air Monitoring System. These expenses for fiscal year 2007 increased \$857 thousand over prior year amounts as a result of increased legal fees resulting from litigation and increases in professional services related to various RIAC initiatives.

Other operating expenses for fiscal year 2008 increased by \$376 thousand over fiscal year 2007 amounts related to increases in the cost of fuel and increases in General Aviation airport operating expenses. These expenses for fiscal year 2007 are \$177 thousand higher than prior year amounts due to increased spending in General Aviation airport operating expenses.

PASSENGER FACILITY CHARGES

Passenger Facility Charges (PFCs) are available to airports to finance specific eligible projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport or (iii) furnish opportunities for enhanced competition among air carriers. Prior to fiscal year 2006, RIAC had received approval of its applications for authority to impose and use PFCs of \$3.00 per enplaned passenger to pay for eligible components of several projects including the new T.F. Green Terminal as well as the payment of a portion of the debt service on the 1993 Series A Bonds, the 1994 Series A Bonds and the 2000 Series A and B Bonds issued therefore. During fiscal years 2006 and 2007 RIAC's PFC applications one through four were

amended to increase the PFC from \$3.00 to \$4.50 per enplaned passenger and adjust the total PFC Authority from \$147.5 million to \$135.9 million. In fiscal year 2007 RIAC received approval of a new application for certain airport projects in the amount of \$31.826 million to be collected at \$4.50 per enplaned passenger, bringing the total PFC Authority to \$167.726 million.

During the fiscal year, PFC revenues were \$10.146 million as compared to \$10.040 million in fiscal year 2007 and \$7.442 million in fiscal year 2006. As of June 30, 2008, \$101.850 million (including interest earned) of PFCs have been collected. The authority to collect PFCs expires upon the expiration date specified by the FAA or once collections reach a maximum amount approved by the FAA, whichever occurs first.

In fiscal year 2008, \$4.183 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series (which refunded a portion of the 1993 Series), 2004 Series (which refunded the remaining 2003 Series and a portion of the 1994 Series), and 2005 Series C bonds (which refunded the 2000 Series B). In fiscal year 2007, \$4.182 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series (which refunded a portion of the 1993 Series), 2004 Series (which refunded the remaining 2003 Series and a portion of the 1994 Series), and 2005 Series C bonds (which refunded the 2000 Series B). In fiscal year 2006, \$4.183 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series, 2004 Series, and 2005 Series C bonds.

CUSTOMER FACILITY CHARGES

Since July of 2001, RIAC has been collecting Customer Facility Charges (CFCs) in the amount of \$3.75 per transaction day from the rental car companies that operate at, or near, the Airport and service customers who utilize the Airport in anticipation of the construction of a consolidated car rental facility to be located on, or near, Airport property. Effective July 1, 2007, RIAC increased the amount of the CFC to \$4.25 per eligible transaction day in line with the Warwick Intermodal Facility plan of finance. The authority to collect Customer Facility Charges is pursuant to transportation ground rules promulgated by RIAC and Section 1-2-1.1 of the Rhode Island General Laws. During the fiscal year, CFC revenues were \$6.211 million, as compared to \$4.861 million in fiscal year 2007 and \$5.238 million in fiscal year 2006.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

Capital asset acquisitions and improvements exceeding \$2,500 are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants with matching RIAC funds.

In fiscal year 2008, RIAC capitalized \$5.591 million in land and easement acquisitions, \$139.956 million in leasehold improvements, \$3.275 million in machinery and equipment, and \$40 thousand in vehicles. Additional amounts were added to construction in progress (CIP) to reflect ongoing construction activities during the fiscal year, resulting in an ending balance of \$32.28 million at June 30, 2008. During the fiscal year, RIAC acquired a hangar at North Central Airport for approximately \$2.6 million and recorded \$18.802 million when ownership of Garage B was conveyed to RIAC upon the expiration of the previous parking Concession Lease Agreement.

In fiscal year 2007, RIAC capitalized \$3.92 million in land acquisitions, \$5.774 million in leasehold improvements, \$1.62 million in machinery and equipment, and \$216 thousand in vehicles. Additional amounts were added to CIP to reflect ongoing construction activities during the fiscal year, resulting in an ending balance of \$120.14 million at June 30, 2007.

Additional information on capital assets may be found in the notes to the financial statements.

SIGNIFICANT PROJECTS - AIRPORTS

Land Acquisition – T. F. Green Airport

In fiscal year 2008, \$7.462 million was expensed in connection with the acquisition of thirty-three properties under the 70 Day-Night Level (DNL) land acquisition program. In fiscal year 2007, \$14.885 million was expensed in connection with the acquisition of fifty-five properties under the 70 DNL land acquisition program. These acquisitions are on a voluntary basis and approximately 265 properties were listed as eligible to be acquired. Amounts related to the value of land at the time of these acquisitions is capitalized, but not depreciated in accordance with U.S. GAAP.

Easement Acquisition and Obstruction Removal – Newport, North Central, Westerly and Block Island Airports

Another significant CIP initiative is obstruction removal which may require the acquisition of easements on properties surrounding the Airports. Obstructions are defined as those objects, either manmade or natural which penetrate into the navigable air space surrounding runways. A total of five projects involving three of the six airports were underway in fiscal year 2008 resulting in expenditures of approximately \$1.142 million. A total of seven projects involving four of the six airports were underway in fiscal year 2007 resulting in expenditures of approximately \$710 thousand.

Draft Environmental Impact Statement (DEIS) – T. F. Green Airport

In fiscal year 2008, approximately \$1.056 million was expended on the preparation of a DEIS as outlined in FAA orders 5050.4A and 1050.1D in accordance with the National Environmental Policy Act (NEPA) process. The amount expended in fiscal year 2007 totaled approximately \$2.037 million. A Record of Decision (ROD) is expected from the FAA in January 2010.

Phase Two Seawall Reconstruction – Quonset

The original seawall at Quonset Airport was constructed in the 1940's and needed to be reconstructed. Phase two involved the rehabilitation of approximately 2,500 linear feet of seawall to improve erosion control. In fiscal year 2008, approximately \$2 thousand was expended on this project. In fiscal year 2007, approximately \$461 thousand was expended under phase two. This project is now complete.

Construction of New Customer Hangar - Quonset

This project consists of the design and construction of a multipurpose aircraft hangar with aircraft hangar space of approximately 20,000 square feet. This facility will include rentable office space and dedicated areas for the provision of Fixed Based Operator (FBO) and general aviation services. Expenditures in fiscal years 2007 and 2008 were \$356 thousand and \$1.437 million respectively.

Terminal Improvement Project – T. F. Green Airport

In fiscal year 2008, RIAC substantially completed portions of the construction related to the Terminal Improvement Project that will allow for the removal of the Explosive Detection System (EDS) equipment from its current location in the passenger terminal lobby and along the departures curb by replacing it with new equipment in expanded baggage make-up areas on both the north and south sides of the terminal, in line with a new baggage conveyor system. Administrative spaces have been built to service the EDS equipment, RIAC administration, and some Transportation Security Administration (TSA) functions. As part of this project, the carpet in the Airport is being replaced.

In fiscal year 2007 a revision of the existing Security Screening Checkpoint (SSCP) at the Airport to nearly double its original size was completed as part of this project. This project also includes the construction of pre and post-security concessions which are scheduled to open throughout fiscal year 2009, new security bypass ramps on the mezzanine level below the existing SSCP which opened in August 2007, and the relocation of the existing vertical circulation from in front of the SSCP to the area closer to the front of the terminal.

Fiscal year 2008 expenditures on this project totaled \$19.574 million. Approximately \$51.243 million was expended on this project in fiscal year 2007.

Airfield Maintenance Facility – T. F. Green Airport

This project involved the construction of a new Airfield Maintenance Facility within the Airfield Operations Area (AOA). This substantially completed facility includes 38,000 sq. ft. for Snow Removal Equipment storage, a 10,300 sq. ft. Maintenance Garage, 10,000 sq. ft. for a Maintenance Support Area, 10,600 sq. ft. for Airfield Maintenance and Operations administrative space, as well as heated sand and runway deicing chemical storage, above ground fuel storage and parking.

In fiscal year 2008, the amount expended on this project was \$1.656 million. In fiscal year 2007 the total amount expended was \$9.414 million.

Glycol Tank Farm and Fuel Farm AOA Fencing

This project constructed a single, consolidated storage facility near the existing fuel farm. In addition, the Airport Operations Area (AOA) fence near the fuel farm and glycol storage facility has been relocated to accommodate secure deliveries to the glycol tank farm. Expenditures for this project were approximately \$1.497 million in fiscal year 2008 and \$460 thousand in fiscal year 2007. This project is substantially complete.

Rehabilitate Runway 7-25, Taxiways A, B & C and Apron – Westerly Airport

This project consisted of the design and construction of a mill and pavement overlay of Runway 7-25 and ramp and Taxiways A, B and C with new lighting, signage and markings at Westerly Airport. The existing aircraft parking apron was also rehabilitated. In fiscal year 2007, approximately \$126 thousand was expended on this project. This project is now complete.

Landside Improvements – Block Island Airport

This project involves the design and construction of a new terminal at Block Island Airport. The existing terminal building is out of date and undersized for the passenger traffic throughput during peak season. The new terminal building will include a restaurant, airport management offices, and seating for the general public. A new paved entrance roadway and a new auto parking area will be constructed as part of this project. Expenditures for this project were approximately \$2.345 million in fiscal year 2008 and \$346 thousand in fiscal year 2007.

Airside Improvements – Block Island Airport

This project consisted of the design and reconstruction of Runway 10-28 with new lighting, signage and markings at Block Island Airport. Runway safety areas and a new taxiway to the end of Runway 10 have also been addressed as part of this project. Total expenditures for this project in fiscal year 2008 and 2007 were \$21 thousand and \$3.704 million, respectively. This project is now complete.

Rehabilitate Runway 5-23 – North Central Airport

This project consisted of the design and construction of a mill and pavement overlay of Runway 5-23 with new lighting, signage and markings at North Central Airport. Total expenditures for this project in fiscal year 2008 and 2007 were \$66 thousand and \$2.909 million, respectively.

INTERMODAL PROJECT

The Warwick Intermodal Facility Project will include consolidated facilities for Airport rental car operations; a commuter rail train platform to provide access for Massachusetts Bay Transit Authority (MBTA) commuter rail service south to Wickford, RI and north to both Providence and Boston; a parking garage for rental car operators and rail commuters; a drop-off zone for taxis and limousines serving commuters; and a short-term parking area for pick-up and drop-off. There will also be a bus stop on the west side of the facility along Jefferson Boulevard that will serve Rhode Island Public Transit Authority (RIPTA) buses. An elevated and enclosed skywalk system will connect the Intermodal Facility to the Airport Terminal over a distance of approximately 1,250 feet. Travel time between the Intermodal Facility and the Airport Terminal is estimated to be four minutes using the skywalk system. The Intermodal Facility will occupy six levels and include approximately 1.3 million square feet of space on a 283,000 square foot footprint for both the structure and fueling platform. The Intermodal Facility is expected to be completed with a Date of Operational Opening (DOO) expected in Fall 2010.

The Intermodal Facility is estimated to cost \$267 million and is being funded from the following sources: 2006 First Lien Bonds, the TIFIA Bond, Federal Highway grants, State matching grants and CFCs.

COMMITMENTS FOR AIRPORT IMPROVEMENTS

As of June 30, 2008 and 2007, RIAC was obligated for the completion of certain airport improvements under commitments of \$20.121 and \$26.553 million, which are expected to be funded from current available resources and future operations. As of June 30, 2008 and 2007, RIAC was also obligated for the completion of the Intermodal Facility under commitments of \$7.824 million and \$5.325 million, respectively.

LONG-TERM DEBT ADMINISTRATION - GENERAL

Under the State Lease Agreement, RIAC has agreed to reimburse the State for State G.O. Bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient moneys to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2008 and 2007 was \$11.678 million and \$13.195 million, respectively.

In 1994, RIAC issued \$30 million Series A General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2008 and 2007 was \$6.07 million for both years.

In 1998, RIAC issued \$8.035 million Series A and \$53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2008 and 2007 was \$35.08 million and \$54.46 million, respectively.

In 2000, RIAC issued \$8.38 million Series A and \$42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5%. The balance outstanding as of June 30, 2008 and 2007 was \$5.19 million and \$6.31 million, respectively.

In 2003, RIAC issued \$31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of \$31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2008 and 2007 was \$23.585 million and \$26.415 million, respectively.

In 2004, RIAC issued \$52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of \$31.915 million and \$20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2008 and 2007 was \$50.06 million and \$50.95 million, respectively.

In 2005, RIAC issued \$43.545 million Series A and \$27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued \$44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of \$42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of \$3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2008 and 2007 was \$114.87 million and \$115.075 million, respectively.

In 2008, RIAC issued \$17.645 million Series A and \$15.49 million Series B Airport Revenue Bonds dated May 30, 2008 maturing annually from 2008 through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued \$18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of \$18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of \$597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2008 was \$51.165 million.

LONG TERM DEBT ADMINISTRATION – SPECIAL FACILITY

In 2006, RIAC issued \$48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was \$48.765 million as of June 30, 2008 and 2007. The principal amount of redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

The Trust Estate consists of: (i) Facility Revenues (which include CFCs); (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture; (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture; and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the Intermodal Facility Project, RIAC and the EDC secured additional funds under the United States Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) for the payment of eligible project costs of the Intermodal Facility up to \$42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund to be funded from CFCs on the DOO in an amount

equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2008 and June 30, 2007 approximately \$83 thousand had been drawn on the TIFIA loan.

CREDIT RATINGS AND BOND INSURANCE

Since the inception of RIAC in 1992, there have been six General Airport Revenue Bonds (GARBs) issued by the EDC, the parent of RIAC, to finance construction and other related costs for certain capital improvements at T. F. Green Airport and four Airport Revenue Refunding Bonds to defease all of the 1993 GARB debt, a portion of the 1994 GARB debt, a portion of the 1998 GARB debt, and all of the 2000 Series B GARB debt. The GARBs include the 1993 Series A Bonds (\$78.1 million insured by FSA, all of which is now defeased), 1994 Series A Revenue Bonds (\$30 million and insured by FSA, with \$6.07 million outstanding), 1998 Series A&B Revenue Bonds (\$61.175 million insured with FSA with \$35.08 million outstanding), 2000 Series A&B Revenue Bonds (\$50.545 million insured by FGIC, \$5.19 million Series A outstanding; Series B is now defeased), the 2005 Series A&B Revenue Bonds (\$70.79 million outstanding and insured by MBIA), and the 2008 Series A&B Revenue Bonds (\$33.135 million outstanding and insured with Assured Guaranty).

The Airport Revenue Refunding Bonds include the 2003 Series A Bonds (\$31.725 million insured by FGIC, with \$23.585 million outstanding), the 2004 Series A Bonds (\$52.665 million insured by FSA, with \$50.06 million outstanding), the 2005 Series C Bonds (\$44.465 million insured by MBIA, with \$44.08 million outstanding), and the 2008 Series C Bonds (\$18.03 million outstanding and insured with Assured Guaranty).

In connection with the June 2008 issue EDC/RIAC's outstanding debt was rated by three firms, Fitch Investor Services (Fitch), Moody's Investor Services (Moody's) and Standard & Poor's (S&P) as A, A2 and A-, respectively.

In connection with the sale of RIAC's Series 2006 First Lien Bonds for the Intermodal Facility Project, insurance was purchased by RIAC to guarantee the payment of principal and interest when due from CIFG, Assurance North America, Inc. The bonds were rated by Moody's and S&P as Baa1 and BBB+, respectively.

CURRENT OPERATIONS AND FINANCIAL SITUATION

During fiscal year 2008, T. F. Green Airport continued to experience a reduction in available seats across several carriers as part of their shift from mainline service to regional jets, with the notable exception of Southwest, the dominant carrier. American Eagle, which represented 1.7% of the enplanements and 1.4% of landed weights in FY 2008, announced it will discontinue service effective, November 1, 2008. Despite, a difficult economy and a struggling airline industry, T.F. Green's 96% Origin and Destination (O&D) market coupled with the strength of its catchment area will continue to make it attractive for air carriers. The fare structure at T. F. Green and the cost structure among the air carriers remain competitive in 2008.

RIAC entered into a \$185 million Guaranteed Maximum Price (GMP) agreement with Gilbane Building Co. in August 2008 for the construction of the Intermodal Facility, which is scheduled to be completed in Fall 2010. Standard and Poor's reaffirmed its BBB+ rating of the Series 2006 First Lien Bonds for the Intermodal Facility Project in August 2008. Effective January 1, 2009 the CFC charge will increase from \$4.25 per transaction day to \$4.50 per transaction day in line with the Intermodal Facility financing plan.

Any questions or comments concerning any of the information provided in this report, or request for additional information, should be addressed to the Chief Financial Officer of the Rhode Island Airport Corporation, T. F. Green Airport, 2000 Post Road, Warwick, RI 02886 401-737-4000.

Financial Statements

RHODE ISLAND AIRPORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 34,783,533	\$ 30,489,237
Accounts receivable, net	6,165,753	10,814,174
Deposits and prepaid items	768,265	209,169
	41,717,551	41,512,580
Restricted assets:		
Restricted cash and cash equivalents	15,604,810	25,871,529
Restricted investments	34,096,638	-
Accounts receivable, net	1,550,460	3,106,339
	51,251,908	28,977,868
Total current assets	92,969,459	70,490,448
Noncurrent assets:		
Restricted cash and cash equivalents	95,289,010	70,104,542
Restricted investments	14,990,318	57,856,262
	110,279,328	127,960,804
Accounts receivable	153,429	153,429
Capital assets, net of accumulated depreciation and amortization	386,218,855	341,988,906
Deferred charges, net of accumulated amortization of \$2,231,590 and \$2,081,373 in 2008 and 2007, respectively	6,424,344	5,701,285
Total noncurrent assets	503,075,956	475,804,424
Total assets	596,045,415	546,294,872
LIABILITIES		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	1,708,108	952,794
Accrued payroll and employee benefits	1,730,549	1,118,950
Accrued expenses	2,902,718	2,311,244
Deferred revenue	89,265	22,600
Liability for claims, judgements and other settlements	678,000	3,923,575
Current portion of long-term obligations	615,544	622,720
	7,724,184	8,951,883
Payable from restricted assets:		
Accounts and retainage payable	5,333,636	11,203,719
Accrued expenses	1,948,276	5,841,173
Accrued interest payable	7,585,049	7,602,533
Current portion of long-term obligations	7,045,000	6,365,000
	21,911,961	31,012,425
Total current liabilities	29,636,145	39,964,308
Long term obligations, less current portion	341,688,005	318,011,950
Total liabilities	371,324,150	357,976,258
NET ASSETS		
Invested in capital assets, net of related debt	116,678,979	75,799,077
Restricted	79,366,316	87,587,885
Unrestricted	28,675,970	24,931,652
Total net assets	\$ 224,721,265	\$ 188,318,614

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

RHODE ISLAND AIRPORT CORPORATION
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Charges for services:		
Rental and concession fees	\$ 26,986,515	\$ 21,808,417
Landing fees and airfield revenues	14,444,179	15,575,278
Parking	14,022,348	11,350,871
Total operating revenues	55,453,042	48,734,566
OPERATING EXPENSES		
Employee wages and benefits	19,895,570	18,704,237
Supplies, materials and services	6,904,356	5,804,411
Other operating expenses	7,348,000	6,971,919
Depreciation and amortization	16,636,179	15,725,116
Total operating expenses	50,784,105	47,205,683
Operating income	4,668,937	1,528,883
NONOPERATING REVENUES (EXPENSES)		
Passenger facility charges	10,146,124	10,039,836
Customer facility charges	6,211,325	4,860,633
Investment income	4,018,547	6,583,508
Claims, judgements and other settlements	1,572,000	(6,157,150)
Other	107,921	197,902
Grant revenues for property acquisition	8,336,481	14,398,670
Grant expenses for property acquisition	(7,462,405)	(14,885,072)
Interest expense	(13,550,155)	(11,705,104)
Total nonoperating revenues, net	9,379,838	3,333,223
Income before capital contributions	14,048,775	4,862,106
CAPITAL CONTRIBUTIONS	22,353,876	11,117,823
Change in net assets	36,402,651	15,979,929
Net assets, beginning of year	188,318,614	172,338,685
Net assets, end of year	\$ 224,721,265	\$ 188,318,614

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

RHODE ISLAND AIRPORT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from rentals and other services or fees	\$ 58,017,075	\$ 48,389,083
Payments to employees for services	(19,782,254)	(18,650,678)
Payments to suppliers and other	(12,943,726)	(13,137,073)
Claims, judgements and other settlements	(1,673,575)	(5,548,575)
Net cash provided by operating activities	<u>23,617,520</u>	<u>11,052,757</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of passenger facility charges	11,227,865	8,981,558
Collection of customer facility charges	6,570,746	4,327,682
Proceeds from sale of capital assets	31,717	63,138
Other	107,921	197,902
Interest paid, long-term obligations	(12,962,868)	(10,033,504)
Capital contributions and grant revenues, net	(3,226,453)	16,657,697
Acquisition and construction of capital assets	(42,200,756)	(89,180,607)
Costs of issuance	(363,416)	(58,832)
Proceeds from long-term obligations	32,001,889	83,232
Payments on long-term obligations	(8,494,690)	(9,002,877)
Net cash used in capital and related financing activities	<u>(17,308,045)</u>	<u>(77,964,611)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	54,646,676	56,685,780
Interest on investments	4,133,264	6,761,712
Purchases of investments	(45,877,370)	(84,948,057)
Net cash provided by (used in) investing activities	<u>12,902,570</u>	<u>(21,500,565)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,212,045	(88,412,419)
Cash and cash equivalents, beginning of year	<u>126,465,308</u>	<u>214,877,727</u>
Cash and cash equivalents, end of year	<u>\$ 145,677,353</u>	<u>\$ 126,465,308</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Current unrestricted assets	\$ 34,783,533	\$ 30,489,237
Current restricted assets	15,604,810	25,871,529
Noncurrent restricted assets	95,289,010	70,104,542
	<u>\$ 145,677,353</u>	<u>\$ 126,465,308</u>

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

RHODE ISLAND AIRPORT CORPORATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 4,668,937	\$ 1,528,883
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,636,179	15,725,116
Gain on disposal of capital assets	(17,823)	(61,617)
Claims, judgements and other settlements	1,572,000	(6,157,150)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	2,497,368	(344,148)
Deposits and prepaid items	(559,096)	15,745
Increase (decrease) in:		
Accounts payable	758,432	116,207
Accrued expenses	(2,005,142)	231,056
Deferred revenue	66,665	(1,335)
Net cash provided by operating activities	\$ 23,617,520	\$ 11,052,757

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Noncash capital and related financing activities:		
Capital assets recorded through capital contributions	\$ 18,802,000	\$ -
Retirement of bonds payable through issuance of refunding bonds	18,060,000	-
Bond issuance costs and related premium recorded through issuance of refunding bonds	966,927	-
Deferred amount on refundings recorded through:		
Issuance of refunding bonds and related premium on refunding bonds issued	214,023	-
Reduction of unamortized bond issuance costs and unamortized original issue premiums and discounts	325,103	-

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

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - ORGANIZATION AND REPORTING ENTITY

ORGANIZATION

Rhode Island Airport Corporation (“RIAC”) is a public corporation organized in December 1992 for the purpose of assuming operating responsibility for the six airports in the State of Rhode Island (“State”). RIAC is a component unit of the Rhode Island Economic Development Corporation (“EDC”), which is a component unit of the State. The airports are owned by the State and prior to July 1, 1993 were managed by the Department of Transportation, Department of Airports (“RIDOT”). RIAC and the State entered into a Lease and Operating Agreement (“Lease Agreement”) which transferred operating responsibility for the airports to RIAC effective July 1, 1993, which agreement was amended in fiscal year 2008 to extend the term to 2038 (*see Note 10*). RIAC does not have the power to issue bonds, notes or borrow money without the approval of the EDC, nor does it have the power of eminent domain with respect to real property.

RIAC is governed by a board of directors which consists of seven members who serve without compensation but are entitled to reimbursement for necessary expenses incurred in performance of their duties relating to RIAC.

RIAC is not subject to federal, state or local income taxes.

REPORTING ENTITY

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, RIAC applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. No component units are reported in the accompanying financial statements based on operational or financial relationships with RIAC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

RIAC applies all pronouncements of the 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 those pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, RIAC has elected to not apply any FASB pronouncements and interpretations issued after November 30, 1989.

RIAC engages only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external users. The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF ACCOUNTING *(Continued)*

RIAC distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with RIAC's principal ongoing operations. The principal operating revenues of RIAC are charges to customers for fees and services. Operating expenses include the cost of providing services, administrative expenses and depreciation and amortization expense on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is RIAC's policy to use restricted assets first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

RIAC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

RIAC's cash and cash equivalents include amounts designated by the Board of Directors for capital acquisition, construction and operating costs (*see Note 8*). Such amounts totaled \$5,100,000 as of June 30, 2008 and 2007.

RECEIVABLES

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. This estimate is based on history, aviation industry trends and current information regarding the credit worthiness of the debtors. RIAC requires collateral or other forms of security from certain customers.

At June 30, 2008, approximately 26% of accounts receivable is due from two customers. At June 30, 2007, approximately 34% of accounts receivable was due from two customers.

INVESTMENTS

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, RIAC presents all investments 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 nonnegotiable debentures 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. Fair value is established by quoted market prices.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RESTRICTED ASSETS

Restricted assets consist of monies and other resources whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation. These restrictions are described below:

Restricted for Capital Expenditures

These assets are restricted under RIAC's capital grants and other agreements for certain capital projects and cannot be expended for any other purpose. These assets include amounts collected for Passenger Facility Charges, Customer Facility Charges and bond proceeds to be used for construction.

Restricted for Deposits

These assets are restricted from operations because they represent deposits that are held to ensure performance by tenants.

Restricted for Reserves

These assets are restricted by the Master Indenture of Trust dated October 1, 1993, which authorizes EDC to issue bonds on behalf of RIAC. The operating and maintenance reserve reports resources set aside to subsidize potential deficiencies from RIAC's operations that could adversely affect debt service payments. The repair and rehabilitation reserve reports resources set aside to meet unexpected contingencies or to fund asset repairs and rehabilitation.

CAPITAL ASSETS AND DEPRECIATION AND AMORTIZATION

Capital assets are stated at cost, or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation, except for capital assets donated by the State which were recorded at the same net book value as previously reported by the State. Assets leased from the State by RIAC are recorded at the present value of the future minimum lease payments plus the value of funding received from the federal government. RIAC defines capital assets as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Expenditures that substantially increase the useful lives of existing assets are capitalized and routine maintenance and repairs and costs associated with the Noise Mitigation and Property Acquisition Programs are expensed as incurred. Interest expense incurred on bonds payable during the construction phase of capital assets, net of interest income earned on such bond proceeds invested over the same period, is included as part of the capitalized value of the assets constructed.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS AND DEPRECIATION AND AMORTIZATION (Continued)

Depreciation and amortization of capital assets is calculated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Assets leased from the State	5-25
Leasehold improvements	7-40
Machinery and equipment	2-15
Vehicles	2-10

COMPENSATED ABSENCES

RIAC accrues vacation and sick pay benefits as earned by its employees in accordance with established personnel policies using the salary rates in effect at the statement of net assets date. Sick pay benefits are accrued using the vesting method in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

BOND ISSUANCE COSTS, ORIGINAL ISSUE PREMIUM OR DISCOUNT AND DEFERRED AMOUNTS ON REFUNDINGS

Bond issuance costs are deferred and amortized over the life of the related bonds using the straight line method and are reported as deferred charges. Bond premiums and discounts are deferred and amortized over the life of the related bonds using the effective interest method. Deferred amounts on refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the refunding bonds using the straight line method, which approximates the effective interest method. Revenue bonds payable are reported net of the original issue bond premium or discount, as appropriate, and deferred amounts on refundings, as applicable.

NET ASSETS

RIAC's net assets are presented in the following three categories:

Invested in capital assets, net of related debt - This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.

Restricted - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category consists of net assets which do not meet the definition of the two preceding categories.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

Rental and Concession Fees

Rental and concession fees are generated from airlines, food and beverage outlets, retailers, rental car agencies, advertising and commercial tenants. Leases executed by RIAC with such parties are accounted for as operating leases. In accordance with the provisions of Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, and certain of its interpretations, RIAC recognizes rental income on a straight-line basis over the terms of the various leases.

Concession fees are recognized based on reported concessionaire revenue. Where agreements permit audits of concessionaire revenue, any additional fees resulting from such audits are recognized when such amounts become known.

Landing Fees and Airfield Revenues

Landing fees are generated principally from scheduled airlines, cargo carriers and nonscheduled commercial aviation based on landed weight of the aircraft and/or signed contracts. Airfield revenues include tiedown and hangar rentals, fuel flowage fees and other airfield related revenues. Landing fees and airfield revenues are recognized as revenue as the related facilities are used.

Parking

Parking revenues are generated principally from on-site facilities managed by a third party. Revenues are based upon utilization of the facilities. Parking revenues are recognized based upon reported revenue by the management company. Additional parking revenues resulting from an audit of the management company records are recognized when such amounts become known.

Passenger Facility Charges

Passenger Facility Charges ("PFC") net receipts are restricted for use on pre-approved Federal Aviation Administration ("FAA") projects, including related debt service. The FAA has approved PFC funding for twenty-six projects that comprise a significant portion of RIAC's capital improvement program. RIAC has been authorized to collect PFCs in the aggregate amount of \$167,725,731 based on a rate of \$4.50 per enplaned passenger. Aggregate collections, including interest thereon, through June 30, 2008 were \$101,850,192. Passenger facility charges are recorded as non-operating revenue as earned, based on enplaned passengers.

Customer Facility Charges

Effective July 1, 2001, rental car agencies operating under lease agreements with RIAC were required to impose a customer facility charge ("CFC") of \$3.75 per transaction day on substantially all car rentals. Effective July 1, 2007 the CFC was increased to \$4.25 in line with the plan of finance for the Intermodal Facility. CFC revenue is recorded as non-operating revenue as earned, based upon daily car rentals reported by the rental car agencies. Additional CFC revenues resulting from audits of the rental car agency records are recognized when such amounts become known.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Grants and Capital Contributions

Certain expenditures for airport capital improvements are funded through the Airport Improvement Program of the FAA. The funding provided under these government grants is considered earned as the related allowable expenditures are incurred.

Grants for capital asset acquisition, facility development and eligible long-term planning studies are reported in the statements of revenues, expenses and change in net assets after non-operating revenues and expenses as capital contributions.

Revenues from other grants are recognized as non-operating revenue as soon as all eligibility requirements imposed by the grantor have been met.

Contributions of capital assets by the State are reported as capital contributions at the same net book value as previously reported by the State.

Capital assets conveyed to RIAC based on the expiration of certain concession and lease agreements are reported as capital contributions at estimated fair market value as of the date of transfer.

PROPERTY ACQUISITION PROGRAM

The Property Acquisition Program consists of the acquisition of properties under the "70 Day Night Level" (DNL) land acquisition program, which is funded in part by federal grants. The program includes the purchase and demolition of homes within the 70 DNL contours, as well as related relocation costs of the occupants. The acquisition of the homes is on a voluntary basis. Costs related to this program are expensed as incurred, except for the value of land acquired, which is capitalized.

PENSION PLANS

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2007 financial statements to conform to the current year presentation.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 3 - CASH DEPOSITS – CUSTODIAL CREDIT RISK

As of June 30, 2008 and 2007, RIAC's cash deposits consist of the following:

	<u>2008</u>		<u>2007</u>	
	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 40,410,967	\$ 38,768,254	\$ 44,595,827	\$ 43,385,789
Money market funds	42,039,710	42,039,710	43,385,851	43,385,851
	<u>\$ 82,450,677</u>	<u>\$ 80,807,964</u>	<u>\$ 87,981,678</u>	<u>\$ 86,771,640</u>

Custodial credit risk is the risk that, in the event of a bank failure, RIAC will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. RIAC does not have a deposit policy for custodial credit risk except for that which is provided by Rhode Island General Laws, Chapter 35-10.1 as described below.

The bank balances of RIAC's cash deposits that were exposed to custodial credit risk as of June 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent in RIAC's name	\$ 82,250,677	\$ 87,781,678
	<u>\$ 82,250,677</u>	<u>\$ 87,781,678</u>

RIAC is permitted to invest funds in certificates of deposit, savings accounts, money market accounts and obligations of the United States Government or certain agencies thereof. RIAC may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

In accordance with Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100 percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100 percent of deposits, regardless of maturity. Eligible collateral per the agreement and Rhode Island General Laws, Chapter 35-10.1 includes the following: obligations of the United States; obligations of the State of Rhode Island; obligations of any other State with a rating not less than "A" by Standard and Poor's Corporation or Moody's Investor Services, Inc.; certain one to four family residential mortgage loans providing they meet certain provisions; and other marketable securities and debt instruments determined to be satisfactory for purposes of providing liquid assets in the event of default or insolvency of a qualified depository institution providing that this type of collateral does not exceed 10% of the total collateral pledged by the financial institution.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 3 - CASH DEPOSITS – CUSTODIAL CREDIT RISK (Continued)

Investments in certain money market funds totaling \$64,869,389 and \$39,693,668 as of June 30, 2008 and 2007, respectively, are included in restricted cash and cash equivalents in the accompanying statements of net assets. For purposes of disclosure under GASB Statement No. 40, such amounts are considered investments and are included in the disclosure in Note 5.

A reconciliation of RIAC's cash deposits as presented in the accompanying statements of net assets to amounts presented above as of June 30, 2008 and 2007 is as follows:

	2008	2007
Current assets:		
Unrestricted	\$ 34,783,533	\$ 30,489,237
Restricted	15,604,810	25,871,529
Noncurrent assets:		
Restricted	95,289,010	70,104,542
	145,677,353	126,465,308
Less: restricted cash equivalents considered investments under GASB Statement No. 40	64,869,389	39,693,668
Cash deposits	\$ 80,807,964	\$ 86,771,640

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2008 and 2007:

	2008	2007
Unrestricted:		
Accounts receivable, trade	\$ 5,030,279	\$ 7,927,305
Due from federal government	2,127,080	4,344,489
Due from State of Rhode Island	15,888	15,976
	7,173,247	12,287,770
Less: allowance for uncollectible amounts	854,065	1,320,167
	\$ 6,319,182	\$ 10,967,603

The amount due from a tenant for leasehold improvements which was funded by RIAC totaled \$153,429 as of June 30, 2008 and 2007 and payments commence in December 2009.

The amounts due from the federal government are based on expenditures incurred by RIAC under terms of grant agreements or legislation.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 4 - ACCOUNTS RECEIVABLE (Continued)

	<u>2008</u>	<u>2007</u>
Restricted:		
Due from airlines - Passenger Facility Charges	\$ 867,240	\$ 1,948,981
Due from car rental agencies - Customer Facility Charges	647,676	586,415
Interest	35,544	570,943
	<u>\$ 1,550,460</u>	<u>\$ 3,106,339</u>

NOTE 5 - INVESTMENTS

As of June 30, 2008 and 2007, RIAC's investments consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>2008</u>	
		<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1</u>	<u>1 to 5</u>
Debt Securities:			
Money market funds	\$ 64,869,389	\$ 64,869,389	\$ -
U.S. Treasury Notes	14,990,318	-	14,990,318
U.S. Treasury Bills	34,096,638	34,096,638	-
	<u>\$ 113,956,345</u>	<u>\$ 98,966,027</u>	<u>\$ 14,990,318</u>
		<u>2007</u>	
		<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1</u>	<u>1 to 5</u>
Debt Securities:			
Money market funds	\$ 39,693,668	\$ 39,693,668	\$ -
U.S. Treasury Notes	12,504,174	12,504,174	-
U.S. Treasury Bills	45,352,088	45,352,088	-
	<u>\$ 97,549,930</u>	<u>\$ 97,549,930</u>	<u>\$ -</u>

Because the money market funds had weighted average maturities of 90 days or less they are presented as investments with maturities of less than one year.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 5 - INVESTMENTS (Continued)

A reconciliation of RIAC's investments as presented in the accompanying statements of net assets to amounts presented above as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Current assets:		
Restricted	\$ 34,096,638	\$ -
Noncurrent assets:		
Restricted	14,990,318	57,856,262
Add: restricted cash equivalents considered investments under GASB Statement No. 40	64,869,389	39,693,668
	<u>\$ 113,956,345</u>	<u>\$ 97,549,930</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, RIAC's investment policy limits its investments to those that provide for sufficient liquidity to meet all operating requirements, annual debt service and a reasonable rate of return.

Credit Risk

RIAC's investment policies are pursuant to the Master Indentures of Trust ("Indentures") and Rhode Island General Laws. Rhode Island General Laws and the Indentures permit RIAC to invest in certificates of deposit, savings accounts, money market accounts, obligations of the United States Government or certain obligations thereof, repurchase agreements with any eligible depository for a period not to exceed 30 days, commercial paper with a rating of P-1, A-1 or higher as approved by RIAC's Board of Directors, and investment grade corporate debentures with a rating of AAA, AA by Standard & Poor's Rating Services and Aaa, Aa by Moody's Investor Service, Inc.

As of June 30, 2008 and 2007, RIAC's investments in money market funds were rated AAA by Standard & Poor's Rating Services and Aaa by Moody's Investor Services, Inc.

No credit risk disclosures are required under GASB Statement No. 40 relating to RIAC's investments in U.S. Treasury Notes and U.S. Treasury Bills.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, RIAC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. RIAC does not have a policy for custodial credit risk.

RIAC's investments were not subject to custodial credit risk as they are held by a trustee in RIAC's name.

Concentrations of Credit Risk

RIAC places no limit on the amount of investment in any one issuer. In accordance with GASB Statement No. 40, none of RIAC's investments require concentration of credit risk disclosures.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 6 - CAPITAL ASSETS (Continued)

In December 2007, title to a parking facility was conveyed to RIAC upon expiration of a concession and lease agreement executed with a third party. The estimated fair market value of the underlying land and leasehold improvements totaled \$18,802,000 as of the date of conveyance and has been recorded as a capital contribution for the year ended June 30, 2008.

Capitalized interest included in capital asset additions for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007
Interest expense capitalized	\$ 2,986,622	\$ 5,259,983
Less: interest income	2,227,095	4,166,664
Total capitalized interest, net	\$ 759,527	\$ 1,093,319

As of June 30, 2008 and 2007, RIAC was obligated for the completion of certain airport improvements under commitments of approximately \$20,100,000 and \$26,600,000, respectively, which are expected to be funded from current available resources and future operations. As of June 30, 2008 and 2007, RIAC was also obligated for the completion of certain projects related to the Intermodal Facility of approximately \$7,900,000 and \$5,300,000, respectively.

NOTE 7 - LONG TERM OBLIGATIONS

Long-term obligations activity for the years ended June 30, 2008 and 2007 is as follows:

	2008				Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Revenue and special facility bonds payable	\$ 308,045,000	\$ 51,165,000	\$ (24,425,000)	\$ 334,785,000	\$ 7,045,000
Unamortized amounts:					
Original issue discounts	(387,191)	-	164,172	(223,019)	-
Original issue premiums	9,877,295	77,839	(569,087)	9,386,047	-
Deferred amount on refundings	(9,204,003)	(539,126)	604,771	(9,138,358)	-
Total revenue bonds payable	308,331,101	50,703,713	(24,225,144)	334,809,670	7,045,000
Other liabilities:					
State of Rhode Island payable	13,194,932	-	(1,516,578)	11,678,354	-
Obligations under capital leases	2,615,751	-	(540,393)	2,075,358	533,000
Note payable	774,654	-	(72,719)	701,935	82,544
TIFIA loan	83,232	-	-	83,232	-
	\$ 324,999,670	\$ 50,703,713	\$ (26,354,834)	\$ 349,348,549	\$ 7,660,544

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 7 - LONG TERM OBLIGATIONS (Continued)

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue and special facility bonds payable	\$ 314,120,000	\$ -	\$ (6,075,000)	\$ 308,045,000	\$ 6,365,000
Unamortized amounts:					
Original issue discounts	(436,664)	-	49,473	(387,191)	-
Original issue premiums	10,444,311	-	(567,016)	9,877,295	-
Deferred amount on refundings	(9,806,283)	-	602,280	(9,204,003)	-
Total revenue bonds payable	314,321,364	-	(5,990,263)	308,331,101	6,365,000
Other liabilities:					
State of Rhode Island payable	15,240,649	-	(2,045,717)	13,194,932	-
Obligations under capital leases	3,415,455	-	(799,704)	2,615,751	550,000
Note payable	857,110	-	(82,456)	774,654	72,720
TIFIA loan	-	83,232	-	83,232	-
	<u>\$ 333,834,578</u>	<u>\$ 83,232</u>	<u>\$ (8,918,140)</u>	<u>\$ 324,999,670</u>	<u>\$ 6,987,720</u>

REVENUE AND SPECIAL FACILITY BONDS PAYABLE

Revenue and special facility bonds payable consist of the following as of June 30, 2008 and 2007:

Description	Final Maturity Dates	Interest Rates	Amount Outstanding	
			2008	2007
1994 Series A bonds	7/1/2014	5.25% - 7.0%	\$ 6,070,000	\$ 6,070,000
1998 Series A and B bonds	7/1/2028	4.2% - 5.25%	35,080,000	54,460,000
2000 Series A and B bonds	7/1/2028	5.51% - 6.5%	5,190,000	6,310,000
2003 Series A bonds	7/1/2015	3.5% - 5.0%	23,585,000	26,415,000
2004 Series A bonds	7/1/2024	2.0% - 5.0%	50,060,000	50,950,000
2005 Series A, B and C bonds	7/1/2030	3.0% - 5.0%	114,870,000	115,075,000
2008 Series A, B and C bonds	7/1/2038	3.5% - 5.25%	51,165,000	-
Total revenue bonds payable			<u>286,020,000</u>	<u>259,280,000</u>
2006 First Lien Special Facility Bonds	7/1/2036	4.0% - 5.0%	48,765,000	48,765,000
Total revenue and special facility bonds payable			<u>\$ 334,785,000</u>	<u>\$ 308,045,000</u>

Revenue bonds are issued by EDC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the Intermodal Facility.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 7 - LONG TERM OBLIGATIONS (Continued)

REVENUE AND SPECIAL FACILITY BONDS PAYABLE (Continued)

During the year ended June 30, 2008, RIAC issued \$18,030,000 of revenue bonds with an average interest rate of 4.492% to advance refund \$18,060,000 of revenue bonds with an average interest rate of 5.081%. RIAC advance refunded these bonds to reduce its total debt service payments over the next 10 years by approximately \$717,000 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$597,000. The reacquisition price exceeded the carrying amount of the old debt by \$539,126. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

As of June 30, 2008 and 2007, \$60,225,000 and \$42,165,000, respectively of outstanding revenue bonds, including prior year refundings, are considered defeased.

STATE OF RHODE ISLAND PAYABLE

The Lease Agreement with the State requires RIAC to make annual payments to the State in an amount equal to the principal and interest payments due bondholders under certain airport-related General Obligation Bonds issued on behalf of RIAC. Although the original airport-related General Obligation Bonds were defeased in June 2002, the terms of the Lease Agreement require RIAC to continue to remit payments to the State based upon the amortization schedule of original airport-related General Obligation Bonds through June 2023 (*see Note 10*).

OBLIGATIONS UNDER CAPITAL LEASES

RIAC has financed the acquisition of certain equipment through lease-purchase agreements. The agreements provide for monthly, quarterly, or semi-annual lease payments, which range from \$114,000 to \$244,000. The interest rates associated with these agreements range from 3.67% to 4.11%. A summary of assets acquired with capital leases is as follows as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Machinery and equipment	\$ 8,464,850	\$ 8,464,850
Less: accumulated amortization	4,916,230	4,202,970
	<u>\$ 3,548,620</u>	<u>\$ 4,261,880</u>

Amortization expense relative to leased property under capital leases totaled \$770,088 and \$772,037 for the years ended June 30, 2008 and 2007, respectively and is included in depreciation and amortization expense disclosed in Note 6.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 7 - LONG TERM OBLIGATIONS (Continued)

OBLIGATIONS UNDER CAPITAL LEASES (Continued)

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2008 are as follows:

Year ending June 30:	
2009	\$ 610,425
2010	714,971
2011	534,576
2012	324,396
2013	64,700
Total minimum lease payments	<u>2,249,068</u>
Less: amount representing interest	173,710
Present value of minimum lease payments	<u><u>\$ 2,075,358</u></u>

NOTE PAYABLE

RIAC has financed the acquisition of a parcel of land with seller-provided financing. The note requires monthly payments of principal and interest of \$9,176, including interest at 4.15% through November 2015.

Aggregate scheduled principal and interest payments due on RIAC's long-term obligations through maturity, excluding obligations under capital leases and the TIFIA loan, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 8,695,698	\$ 16,703,700	\$ 25,399,398
2010	10,001,236	16,175,454	26,176,690
2011	10,109,675	15,643,670	25,753,345
2012	11,998,468	15,077,814	27,076,282
2013	12,577,422	14,487,551	27,064,973
2014-2018	66,652,790	62,809,677	129,462,467
2019-2023	81,800,000	44,483,339	126,283,339
2024-2028	77,120,000	24,408,628	101,528,628
2029-2033	42,905,000	9,349,851	52,254,851
2034-2038	23,205,000	2,631,483	25,836,483
2039	2,100,000	-	2,100,000
	<u>\$ 347,165,289</u>	<u>\$ 221,771,167</u>	<u>\$ 568,936,456</u>

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 7 - LONG TERM OBLIGATIONS (Continued)

TIFIA LOAN

In June 2006, RIAC, EDC and the Rhode Island Department of Transportation (“RI DOT”) executed a Secured Loan Agreement (“Agreement”) which provides for borrowings of up to \$42,000,000 with the United States Department of Transportation (“US DOT”) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement is to reimburse EDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of the EDC (the borrower per the Agreement), and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2008 and 2007, RIAC had \$83,232 in borrowings under this agreement.

NOTE 8 - NET ASSETS

Restricted net assets consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Restricted for:		
Capital acquisition and construction	\$ 34,338,516	\$ 30,711,202
Passenger Facility Charges	9,146,956	23,631,604
Customer Facility Charges	29,759,265	27,353,449
Operating and maintenance reserve	5,621,579	5,391,630
Repair and rehabilitation reserve	500,000	500,000
	<u>\$ 79,366,316</u>	<u>\$ 87,587,885</u>

Under the Master Indenture of Trust adopted in 1993, RIAC agreed to create and maintain two reserves. The operating and maintenance reserve is to be equal to two months operating and maintenance expenses and is to be used only if RIAC does not have sufficient funds in its current operating accounts to pay these expenses on a timely basis. The repair and rehabilitation reserve is to be equal to at least \$500,000 and can be used solely for emergency repairs and rehabilitation to airport facilities. Both reserves have been funded as required and neither has been used to date.

Unrestricted net assets consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Unrestricted net assets designated for capital acquisition, construction and operating costs	\$ 5,100,000	\$ 5,100,000
Unrestricted undesignated net assets	23,575,970	19,831,652
	<u>\$ 28,675,970</u>	<u>\$ 24,931,652</u>

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 9 - LEASES

Future minimum contractual rental payments to be received under non-cancelable leases are as follows:

Year ending June 30:	
2009	\$ 2,407,694
2010	2,517,411
2011	2,580,113
2012	2,644,739
2013	2,710,741
2014-2018	14,605,331
2019-2020	4,605,726
	<u>\$ 32,071,755</u>

In the event of tenant default, RIAC has the right to reclaim its leased property together with any improvements thereon. In addition, RIAC has entered into lease agreements with seven airlines which expire on June 30, 2010.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Lease Agreement between RIAC and the State is for a 30-year term (*see Note 1*) under which the State has agreed to lease various assets to RIAC for \$1 per year. In addition, the Lease Agreement requires RIAC to make annual payments to the State through June 2023 in amounts equal to the principal and interest payments due bondholders under certain airport-related General Obligation Bonds issued by the State on behalf of RIAC (*see Note 7*). In the event RIAC does not have sufficient funds to make the required payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no right to terminate the Lease Agreement so long as there are bonds and subordinate indebtedness outstanding.

Amounts due to the Rhode Island Economic Development Corporation totaled \$718,322 and \$783,284 as of June 30, 2008 and 2007, respectively, and are included in accrued expenses in the accompanying statements of net assets.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 11 - PENSION PLANS

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Plan Description

All employees who transferred from the State's payroll to RIAC's employment on July 1, 1993 participate in the Employees' Retirement System of the State of Rhode Island (the "Plan"). The Plan is a cost-sharing, multiple-employer, public employee retirement system administered by the State. The number of RIAC employees covered by the Plan throughout the year averaged twenty and twenty-two in 2008 and 2007, respectively. RIAC's total payroll for the year ended June 30, 2008 was \$14,797,176, of which \$1,362,020 was covered under the Plan. RIAC's total payroll for the year ended June 30, 2007 was \$14,480,981, of which \$1,384,187 was covered under the Plan.

The Plan issues a stand-alone, publicly available financial report that includes financial statements and required supplementary information. A copy of the report can be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, Rhode Island 02903.

Pension benefits vest after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age and are entitled to retirement benefits payable monthly for life.

The retirement benefit is a percentage of final average salary per year of credited service with a maximum benefit of 80% of final average salary. The percentage for each year of credited service is as follows:

<u>Years of Credited Service</u>	<u>Percent Per Year</u>
1 - 10	1.7%
11 - 20	1.9%
21 - 34	3.0%
35	2.0%

Final average salary is computed using the three highest consecutive years of earned salary excluding overtime, bonuses or severance pay. Retirees' benefits are subject to a 3% compounded annual cost of living increase commencing on the January 1st following the third anniversary of an employee's retirement.

Funding Policy

Rhode Island general laws and the General Assembly set the contribution rates for participating State employees at 8.75% of salary. The Plan's Retirement Board sets the contribution rates for participating employers. Annual contributions by employees, and both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. RIAC was required to contribute an amount for all full-time employees equal to 20.77% and 18.4% of salary for fiscal 2008 and 2007, respectively. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial liability as of July 1, 1989 over 27 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 11 - PENSION PLANS (Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND (Continued)

Funding Policy (Continued)

The amounts contributed to the Plan are as follows:

Year ended June 30:	RIAC Required Contribution	Percentage Contributed
2008	\$ 282,891	100%
2007	254,691	100%
2006	238,190	100%

In accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers", as amended by GASB Statement No. 50 "Pension Disclosures", RIAC has not recorded any assets or liabilities related to the plan.

MONEY PURCHASE PENSION PLAN

Employees hired by RIAC on or after July 1, 1993 are eligible to participate in the Money Purchase Pension Plan and Trust, a defined contribution plan administered by RIAC. The number of RIAC employees covered by this Plan throughout the year averaged 164 in 2008 and 2007. RIAC's total payroll for the year ended June 30, 2008 was \$14,797,176, of which \$9,955,400 was covered under the Plan. RIAC's total payroll for the year ended June 30, 2007 was \$14,480,981, of which \$9,492,890 was covered under the Plan.

In order to participate in the Plan, covered employees must contribute 6% of their base pay to the Plan. Participants are 100% vested in the amounts they contribute. Withdrawals of these contributed amounts are not permitted prior to termination of employment. RIAC matches 100% of participants' required contributions under a five-year vesting schedule. Total contributions for the year ended June 30, 2008 were \$597,324 by the employer and \$616,174 by the employees. Total contributions for the year ended June 30, 2007 were \$569,573 by the employer and \$593,151 by the employees.

The Board of Directors of RIAC has the authority to establish and/or amend the Plan's provisions and the Plan's contribution requirements.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008 AND 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

RIAC participates in a State administered defined benefit postemployment health care plan known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP). The RIRHCBP is an agent multiple employer plan.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2008 the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members. The RIRHCBP does not issue a stand-alone financial report.

Funding Policy

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

For anyone who retires on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

In fiscal year 2008, non-Medicare retirees paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008 AND 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (*Continued*)

Funding Policy (*Continued*)

The retirees' fiscal 2008 contributions are as follows:

<u>Retiree Age</u>	<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

- (1) The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$452.28 (the active plan rate).
- (2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.
- (3) The monthly premium rate for the Medicare Supplemental plan is \$179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was \$100.00 for the first six months of fiscal year 2008 and \$107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Annual OPEB Cost

RIAC recognized an expense equal to the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. RIAC actually contributed 3.91% of annual covered payroll, resulting in a net OPEB obligation of \$32,416, which is included in accrued payroll and employee benefits in the accompanying statement of net assets at June 30, 2008. RIAC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2008, the first year of GASB 45 implementation, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$80,059	65%	\$32,416

Funded Status and Funding Progress

The funded status of RIAC's share of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$967,461
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$967,461</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$1,362,020
UAAL as a Percentage of Covered Payroll	71%

Separate actuarial valuations were not performed to determine the actuarial accrued liability for the Authority, a participating employer. The total AAL for all general employees participating in RIRHCBP was apportioned to each participating entity based on their pro rata share of active covered employees to all active covered employees.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The annual required contribution was determined using the individual entry age actuarial cost method. The unfunded actuarial accrued liability as of the June 30, 2005 transition date is amortized over a period of 30 years using the level (principal and interest combined) percent of payroll contribution amortization method.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2005.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

Significant Legislation Affecting Plan

On May 1, 2008 Public Law 2008-09 was enacted. This law, among other provisions, establishes a Trust to be effective in fiscal year 2009 to fund other post employment health care benefits, requires annual actuarial valuations of the OPEB liability, and commits the State to funding the actuarially determined OPEB contribution beginning in fiscal year 2009. In addition, the legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage.

RHODE ISLAND AIRPORT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008 AND 2007

NOTE 13 - RISK MANAGEMENT

RIAC is self-insured for workers' unemployment. Historically, there has been minimal attrition in the workforce. RIAC pays for unemployment claims as they are incurred and is liable for a maximum of 26 weeks on any claimant.

RIAC is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees or acts of God for which RIAC carries commercial insurance. Neither RIAC nor its insurers have settled any claims which exceeded RIAC's insurance coverage in any of the last three fiscal years. There have been no significant reductions in any insurance coverage from amounts in the prior year.

NOTE 14 - CONTINGENCIES

RIAC participates in a number of programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, RIAC may be required to reimburse the grantor government. As of June 30, 2008 and 2007, significant amounts of grant expenditures have not been audited by grantors, but RIAC believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of RIAC.

RIAC was involved in certain legal proceedings with The Parking Company, LP ("TPC"), New England Parking ("NEP"), and the successors in interest to Fleet National Bank and Fleet Real Estate, Inc. (Bank of America, N.A. and TriSail Capital Corporation, collectively "Bank"). TPC was the concessionaire for on-site parking and its affiliate NEP is the owner of Garage C. TPC, NEP and the Bank had several claims for various amounts. The Bank assigned to TPC and NEP all of its right, title and interest in the Bank's claims. RIAC had counterclaims against TPC and NEP. During the year ended June 30, 2008, RIAC, TPC and NEP dismissed all claims and counterclaims without prejudice.

Council 94, the bargaining unit for RIAC's unionized employees, has contended that certain employees who were not transferred to RIAC from the State of Rhode Island Department of Transportation were eligible to receive health benefits upon retirement. RIAC has disputed this contention. RIAC and Council 94 have reached a mutual understanding regarding resolution of this dispute whereas certain employees have permanently released and waived any and all claims against RIAC for retiree health benefits.

In addition, RIAC is also involved in certain other legal proceedings and claims that have arisen in the ordinary course of business. While the ultimate outcome of these legal proceedings cannot be predicted with certainty, management believes that their resolution will not have a material effect on RIAC's financial statements.

In connection with these matters, RIAC has recorded estimated liabilities for claims, judgments and other settlements totaling \$678,000 and \$3,923,575 as of June 30, 2008 and 2007 respectively. Such amounts are included in liabilities for claims, judgments and other settlements in the accompanying statements of net assets.

**Required
Supplementary
Information**

**RHODE ISLAND AIRPORT CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008 AND 2007**

Schedule of Funding Progress for the Rhode Island Retiree Health Care Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	\$ -	\$ 967,461	\$ 967,461	0%	\$ 1,362,020	71%

Supplemental Information

**RHODE ISLAND AIRPORT CORPORATION
SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008**

Employee	Purpose	Date	Place	Amount Paid
J DaSilva	AAAE Facilities Seminar	07/29/07 to 07/31/07	Colorado Springs, CO	\$ 1,370
M Brewer	49th NEC Annual Conference	08/04/07 to 08/08/07	Pittsburgh, PA	1,054
J Thomas	ARFF Working Group Annual Conference	09/05/07 to 09/09/07	New Orleans, LA	1,097
M Brewer	NASAO Annual Convention	09/07/07 to 09/08/07	Portland, OR	564
M Brewer	2007 Russell Hoyt Conference	09/08/07 to 09/12/07	Tuscon, AZ	1,361
L Benevides	Association of Certified Fraud Examiners Conference	09/09/07 to 09/13/07	Austin, TX	1,340
R Snead	Annual K9 Conference (Sponsored by TSA/DHS)	09/10/07 to 09/13/07	San Antonio, TX	893
A Andrade	Northwest Airlines Winter Summit	09/11/07 to 09/13/07	Bloomington, MN	771
G DeCristofaro	Northwest Airlines Winter Summit	09/11/07 to 09/13/07	Bloomington, MN	862
B Tetreault	APG/NPI Fall Conference	09/17/07 to 09/21/07	Galveston, TX	2,178
D Crossley	Crouse-Hinds Maintenance Seminar	09/18/07 to 09/20/07	Windsor Locks, CT	330
S Catanzaro	Crouse-Hinds Maintenance Seminar	09/18/07 to 09/20/07	Windsor Locks, CT	338
J Diniz	Airport Law Enforcement Agencies Network	09/24/07 to 09/27/07	Las Vegas, NV	1,322
J Ottaviano	Airport Law Enforcement Agencies Network	09/24/07 to 09/27/07	Las Vegas, NV	973
M Brewer	NASAO/FAA Meeting	10/04/2007	Windsor Locks, CT	338
H Reid	AAAE Noise Mitigation Symposium	10/08/07 to 10/10/07	San Diego, CA	1,221
M Brewer	US/Europe Airport Conference	10/13/2007 to 10/17/07	Wroclaw, Poland	2,029
T Pimental	Altitudes East	10/17/07 to 10/19/07	Halifax, Canada	1,182
M Brewer	Airline Visit	10/18/07 to 10/25/07	Dublin, Ireland	4,757
P Goldstein	Airline Visit	10/20/07 to 10/24/07	Dublin, Ireland	1,570
E Seabury	AAAE Airfield Construction Management and Airport Pavement Maintenance and Evaluation Workshops	10/22/07 to 10/24/07	Austin, TX	1,433
B Blair	National Parking Association Conference	10/22/07 to 10/25/07	Hollywood, CA	2,313
D Hayden	AAAE Airport Security Coordinator Training School	11/04/07 to 11/05/07	Tuscon, AZ	575
B Cox	GCR Airport IQ World Conference & Training	11/05/07 to 11/08/07	New Orleans, LA	1,207
N Williams	GCR Airport IQ World Conference & Training	11/05/07 to 11/08/07	New Orleans, LA	1,219
D Dansereau	Institute of Internal Auditors - Enterprise Wide Risk Management Course	11/07/07 to 11/09/07	Kissimmee, FL	1,710
C Capp	Vmware Virtual Infrastructure Training	11/13/07 to 11/16/07	Burlington, MA	928
D Edwards	AAAE Runway Safety Conference	11/14/07 to 11/17/07	Milpitas, CA	846
J Gardiner	TSA Explosive Demolition Team Training	11/21/07 to 11/25/07	San Antonio, TX	3,119
B Cooper	Art Program	11/27/07 to 11/28/07	Warwick, RI	548
S Dory	Art Program	11/27/07 to 11/29/07	Warwick, RI	899
M Brewer	NASAO Meeting, Washington	12/04/07 to 12/06/07	Washington, DC	1,390
M Mini	AAAE Seventh Annual AAAE/TSA/DHS Aviation Security Summit	12/09/07 to 12/10/07	Washington, DC	1,258
R Snead	TSA Explosive Demolition Team Handler Course Graduation	12/13/07 to 12/14/07	San Antonio, TX	665
B Pope	AAAE Air Conference	01/27/08 to 01/29/08	Boulder, CO	736

(Continued)

RHODE ISLAND AIRPORT CORPORATION
SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

Employee	Purpose	Date	Place	Amount Paid
K Pariseault	National Business Aviation Association of Schedulers and Dispatchers	01/28/08 to 02/01/08	Charlotte, NC	\$ 558
T Henderson	Computer Training Class	01/28/08 to 02/01/08	Lexington, MA	581
J Warcup	Bell Factory Training	02/10/08 to 02/13/08	Dallas, TX	1,031
B Cooper	Art Selection Meeting	02/18/08 to 02/19/08	Warwick, RI	325
D Lipski	Art Selection Meeting	02/18/08 to 02/19/08	Warwick, RI	439
S Dory	Art Selection Meeting	02/18/08 to 02/19/08	Warwick, RI	603
D Lipski	Art Program	2/19/2008	Warwick, RI	510
J Gardiner	TSA Explosive Demolition Team Training	02/24/08 to 02/29/08	San Antonio, TX	332
B Blair	Logan Airport to review Revenue Control System	02/26/2008	Boston, MA	316
A Shihadeh	ACC/AAAE Planning, Design & Construction Symposium	02/27/08 to 02/29/08	Denver, CO	916
P Goldstein	Network 2008 Conference	03/02/08 to 03/05/08	San Diego, CA	1,353
T Pimental	Network 2008 Conference	03/02/08 to 03/05/08	San Diego, CA	1,147
J Pavao	Department of Transportation Hazardous Material Shipping Training	03/09/08 to 03/11/08	Greensboro, NC	755
D Lucas	FBO Training and Leadership Conference	03/17/08 to 03/19/08	Houston, TX	1,541
P Smith	FBO Training and Leadership Conference	03/17/08 to 03/19/08	Houston, TX	1,452
D Stolyarov	Vmware Virtual Infrastructure Training	04/01/08 to 04/04/08	Burlington, MA	264
D Hayden	2008 ALEAN Conference	04/08/08 to 04/11/08	San Antonio, TX	1,135
J Ottaviano	2008 ALEAN Conference	04/08/08 to 04/11/08	San Antonio, TX	1,297
A Wolff	Snow Symposium	04/25/08 to 04/30/08	Buffalo, NY	1,215
J Cowley	Snow Symposium	04/25/08 to 04/30/08	Buffalo, NY	1,303
T Brown	Snow Symposium	04/25/08 to 04/30/08	Buffalo, NY	1,053
G DeCristofaro	Snow Symposium	04/26/08 to 05/01/08	Buffalo, NY	1,053
S Traficante	7th Annual AAAE Arts in the Airport Workshop	04/30/08 to 05/02/08	Toronto, Canada	1,437
B Pope	ACI Environmental Conference	05/04/08 to 05/07/08	Denver, CO	1,641
J D'Espinosa	ACE Operations Program Training	05/05/08 to 05/09/08	Los Angeles, CA	1,800
P Kaczorowski	ARFF Working Group Training	05/06/08 to 05/10/08	Panama City, FL	673
M Stuard	Institute of Internal Auditors/MIS - Auditing Outsourced Operations	05/14/08 to 05/16/08	San Francisco, CA	1,675
R Lafond	International Narcotics Interdiction Association - 2008 Terrorist/Trafficker Conference	05/18/08 to 05/22/08	San Diego, CA	1,469
D Dansereau	Assoc. of Airport Internal Auditors (AAlA) Conference	05/31/08 to 06/05/08	Anchorage, AK	1,955
J Piscatelli	International AOA Exposition and Conference	06/01/08 to 06/03/08	South Bend, IN	908
K Inman	International AOA Exposition and Conference	06/01/08 to 06/03/08	South Bend, IN	1,022
N Schmaruk	International AOA Exposition and Conference	06/01/08 to 06/03/08	South Bend, IN	860
K Dillon	Airline Visit	06/02/08 to 06/03/08	Dallas, TX	745
P Goldstein	Airline Visit	06/02/08 to 06/03/08	Dallas, TX	491
D Lucas	Landmark General Manager Meeting	06/04/08 to 06/05/08	Virginia Beach, VA	981

(Continued)

**RHODE ISLAND AIRPORT CORPORATION
SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Employee</u>	<u>Purpose</u>	<u>Date</u>	<u>Place</u>	<u>Amount Paid</u>
S Tibbetts	Landmark General Manager Meeting	06/04/08 to 06/05/08	Virginia Beach, VA	\$ 803
K Dillon	AAAAE Annual Conference	06/06/08 to 06/11/08	New Orleans, LA	1,566
B Pope	AEC Roadmap Meeting	06/17/08 to 06/18/08	Durham, NC	322
P Goldstein	ACI-NA 2008 Marketing and Communications Conference & Jumpstart Air Service Development	06/22/08 to 06/25/08	Pittsburgh, PA	914
T Pimental	ACI-NA 2008 Marketing and Communications Conference & Jumpstart Air Service Development	06/22/08 to 06/25/08	Pittsburgh, PA	762
K Dillon	Airfare to attend Board Meeting	06/30/2008	Warwick, RI	456
K Dillon	Vehicle Lease	01/08 to 06/08	Warwick, RI	4,750
M Brewer	Vehicle Lease	07/07-01/08	Warwick, RI	4,193
Various	Mileage Reimbursement	07/01/07 to 06/30/08	Warwick, RI	4,009
Various	Board Meeting Meals	07/01/07 to 06/30/08	Warwick, RI	3,859
Various	Snow Meals	07/01/07 to 06/30/08	Warwick, RI	5,239
Various	Various Employee/Vehicle trips to Block Island	07/01/07 to 06/30/08	Block Island, RI	2,484
Various	Various Meeting Expenses	07/01/07 to 06/30/08	Warwick, RI	21,393
Various	Miscellaneous Amounts under \$200	07/01/07 to 06/30/08	Warwick, RI	5,663
				\$ 135,644

(Concluded)

Internal Control and Compliance Report

**REPORT 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**

To the Board of Directors of
Rhode Island Airport Corporation
Warwick, Rhode Island

We have audited the basic financial statements of the Rhode Island Airport Corporation ("RIAC") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered RIAC's internal control over financial reporting as a basis for designing our audit 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 RIAC's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of RIAC'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 combination of control deficiencies, that adversely affects RIAC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of RIAC's financial statements that is more than inconsequential will not be prevented or detected by RIAC'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 RIAC's internal control.

Our consideration of internal control over financial reporting was for the 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 that we consider to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether RIAC's financial statements are free of material misstatement, we performed tests of its 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 RIAC, the Rhode Island Economic Development Corporation, and the Rhode Island Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carlin, Chamar & Rosen, LLP

Providence, Rhode Island
September 29, 2008