

McGladrey & Pullen

Certified Public Accountants

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

FINANCIAL REPORT
JUNE 30, 2009

CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
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MANAGEMENT'S DISCUSSION AND ANALYSIS	3-19
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FINANCIAL STATEMENTS	
Statements of Net Assets	20
Statements of Revenues, Expenses and Change in Net Assets	21
Statements of Cash Flows	22-23
Notes to the Financial Statements	24-49

REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	50

SUPPLEMENTAL INFORMATION	
Schedule of Travel and Entertainment Expenses	51

INTERNAL CONTROL AND COMPLIANCE REPORT	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	52-53

Independent Auditor's Report

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statement 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 year ended June 30, 2009 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 audit. The financial statements of RIAC for the year ended June 30, 2008 were audited by other auditors whose report, dated September 29, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Rhode Island Airport Corporation as of June 30, 2009, and the statement of revenues, expenses and changes in net assets and its cash flows for the year 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 30, 2009 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 19 and the schedule of funding progress on page 50 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 audit was 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, 2009 on page 51 is presented for purposes of additional analysis and is not a required part of the 2009 financial statements. The information included in this schedule has been subjected to the auditing procedures applied in the audit of the 2009 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 financial statements taken as a whole.

McGladrey & Pullen, LLP

New Haven, Connecticut
September 30, 2009

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, 2009 and June 30, 2008. 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, 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 undertaken in 2006 and substantially completed in 2008 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 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 curbs 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 a curbs to provide an unloading area for private vehicles, taxis, limousines, and rental car company and hotel shuttles. The lower level roadway includes a curbs designated as loading zones for private vehicles and various commercial vehicles such as buses, courtesy vans, taxis and limousines.

The present airfield configuration consists of two intersecting runways, Runway 5/23 and Runway 16/34. Other facilities at the Airport include: fuel storage areas, facilities for fixed base operators, certain rental car service facilities, air freight and air cargo facilities, various hangers and other aviation-related facilities.

Air Carriers Serving the Airport

As of June 2009, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by thirteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Two airlines provide all-cargo service.

AIRLINES SERVING THE AIRPORT

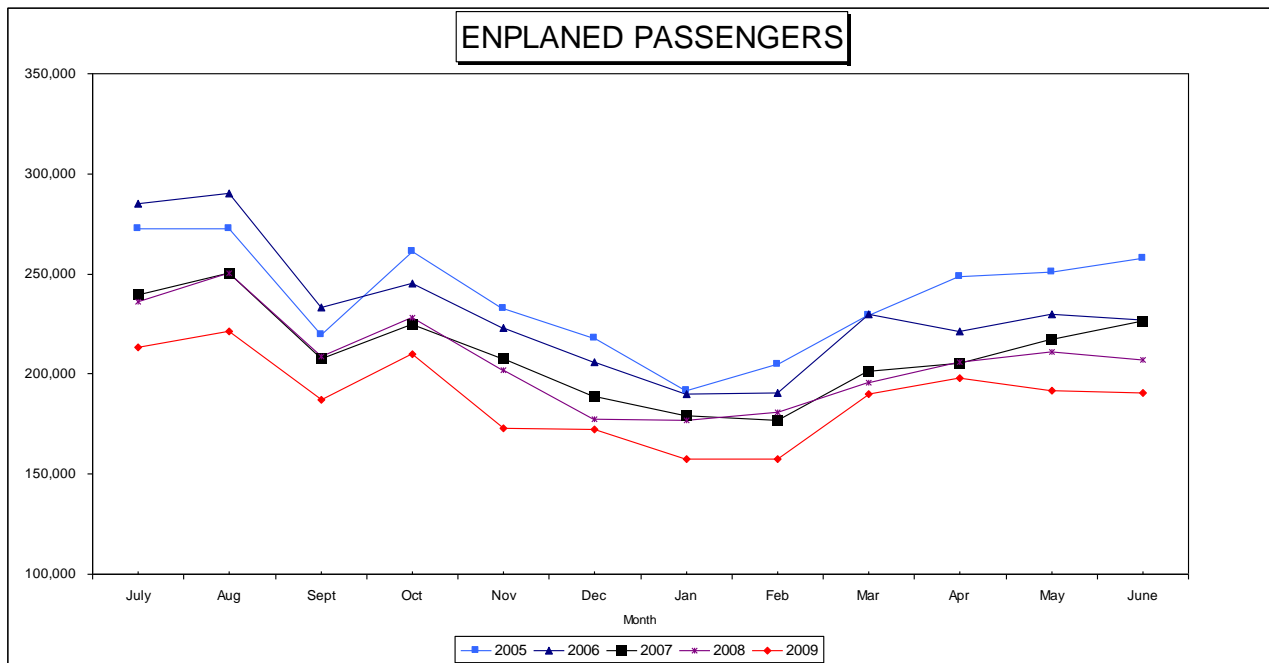
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ExpressJet Airlines	Continental Express
Mesa Airlines	United Express
Northwest Airlines	
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Republic Airlines	US Airways Express
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PSA Airlines	US Airways Express
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Trans States Airlines	United Express
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Commuters (5)	
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Colgan Air	Continental Connections
Freedom Airlines	Delta Connection
Piedmont Airlines	US Airways
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Foreign Flag (1)	
Air Georgian	Air Canada
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All Cargo Carriers (2)	
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 2007 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 60th busiest in federal fiscal year 2006, 57th busiest in federal fiscal year 2005, and 58th busiest in federal fiscal years 2003 and 2004.

Actual enplaned passengers for fiscal year 2009 were 218,254 below 2008, resulting in a decrease of 8.8%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn. The following chart and table depict the historical trend of enplaned passenger traffic at T. F. Green Airport for the fiscal years 2005 through 2009.



Fiscal Year	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
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
2009	213,521	221,326	187,006	209,650	173,168	172,106	157,477	157,573	189,817	197,807	191,596	190,653	2,261,700

Airport Use and Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2009:

- 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 fixtures. 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>2009</u>	<u>2008</u>	<u>2007</u>
Landing fee rate per thousand pounds	\$3.63	\$3.46	\$3.60
Terminal rental rates	\$85.57	\$85.57	\$61.07

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 9,100 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 9,700 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>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 53,836,825	\$ 55,453,042	\$ 48,734,566
Operating Expenses	<u>(52,243,285)</u>	<u>(50,784,105)</u>	<u>(47,205,683)</u>
Operating Income	1,593,540	4,668,937	1,528,883
Non-Operating Revenues, net	<u>2,156,610</u>	9,379,838	3,333,223
Income before Capital Contributions	3,750,150	14,048,775	4,862,106
Capital Contributions	<u>67,400,631</u>	22,353,876	11,117,823
Change in Net Assets	<u>\$ 71,150,781</u>	<u>\$ 36,402,651</u>	<u>\$ 15,979,929</u>

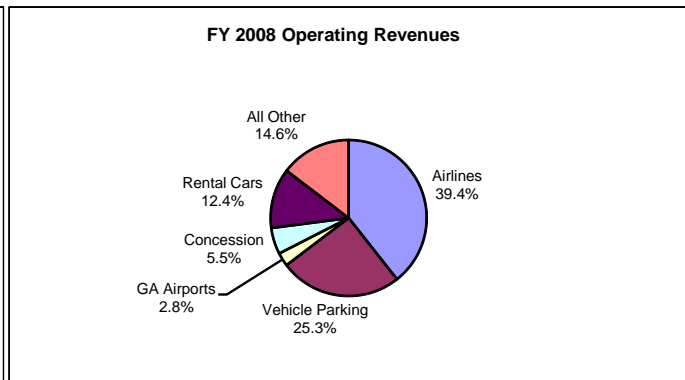
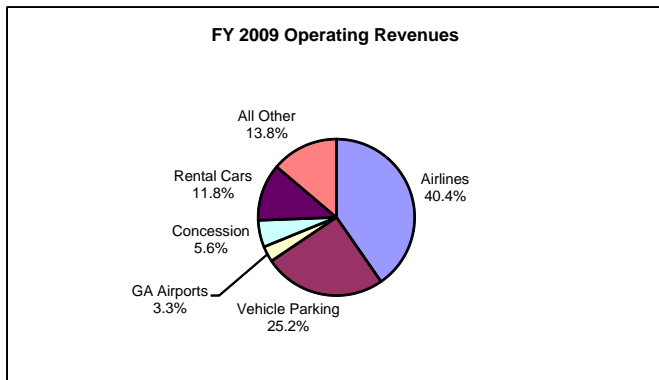
FINANCIAL POSITION SUMMARY

	2009	2008	2007
ASSETS			
Current assets	\$ 114,666,318	\$ 92,969,459	\$ 70,490,448
Noncurrent assets	99,395,637	116,857,101	133,815,518
Capital assets, net	462,174,581	386,218,855	341,988,906
Total assets	676,236,536	596,045,415	546,294,872
LIABILITIES			
Current liabilities	48,998,915	29,636,145	39,964,308
Long term obligations	331,365,575	341,688,005	318,011,950
Total liabilities	380,364,490	371,324,150	357,976,258
NET ASSETS			
Invested in capital assets, net of related debt	183,081,737	116,678,979	75,799,077
Restricted	80,164,427	79,366,316	87,587,885
Unrestricted	32,625,882	28,675,970	24,931,652
TOTAL NET ASSETS	\$ 295,872,046	\$ 224,721,265	\$ 188,318,614

OPERATING REVENUES

The following chart shows the major sources and the percentage of total operating revenues for the fiscal years ended June 30, 2009, 2008 and 2007.

	2009	% of Total Revenues	2008	% of Total Revenues	2007	% of Total Revenues
OPERATING REVENUES						
Airlines	\$ 21,724,249	40.4%	\$ 21,841,859	39.4%	\$ 19,423,825	39.9%
General Aviation & Cargo	662,963	1.2%	658,534	1.2%	394,128	0.8%
Concession	2,998,492	5.6%	3,030,848	5.5%	2,454,239	5.0%
Fuel Flowage Fees	965,636	1.8%	1,116,263	2.0%	982,605	2.0%
Non-Airline Rent	1,317,577	2.4%	1,070,517	1.9%	834,489	1.7%
Off Airport Courtesy Fees	646,631	1.2%	701,633	1.3%	829,340	1.7%
Other Revenues	2,048,966	3.8%	2,834,399	5.1%	2,690,751	5.5%
General Aviation Airports	1,749,823	3.3%	1,560,897	2.8%	1,608,381	3.3%
Rental Cars	6,340,312	11.8%	6,891,582	12.4%	6,539,947	13.4%
Tiedowns, Hangar & Miscellaneous	1,135,484	2.1%	1,088,589	2.0%	1,006,571	2.1%
Rental Revenues - Airport Support	662,082	1.2%	635,573	1.1%	619,419	1.3%
Vehicle Parking	13,584,610	25.2%	14,022,348	25.3%	11,350,871	23.3%
TOTAL OPERATING REVENUES	\$ 53,836,825	100.0%	\$ 55,453,042	100.0%	\$ 48,734,566	100.0%



Revenues for fiscal year 2009 decreased by \$1.616 million from fiscal year 2008 revenues. Overall revenues for fiscal year 2008 increased by \$6.719 million over fiscal year 2007 revenues.

Airline revenues for fiscal year 2009 decreased by approximately \$118 thousand from fiscal year 2008. Increases in fiscal year 2008 airline revenues over the prior year were \$2.418 million. These changes in Airline revenues relate to the shift between signatory and 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 for fiscal year 2009 increased by \$247 thousand over the prior year due to the full year impact of additional terminal space rentals to concessionaires at T.F. Green Airport in 2008. The increase in fiscal year 2007 from the prior year of approximately \$236 thousand relates to additional terminal space rentals to concessionaires at T.F. Green Airport.

Fiscal year 2009 Rental car revenues decreased by approximately \$551 thousand from fiscal year 2008. Rental car revenues for fiscal year 2008 increased by approximately \$352 thousand over fiscal year 2007 amounts. These revenues include RIAC's share of rental car transactions and space rentals at the Airport.

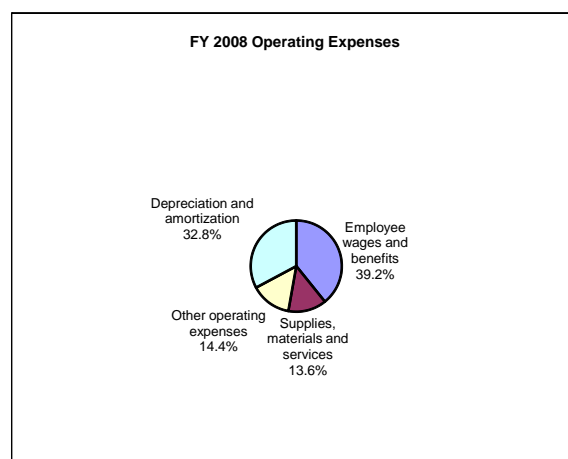
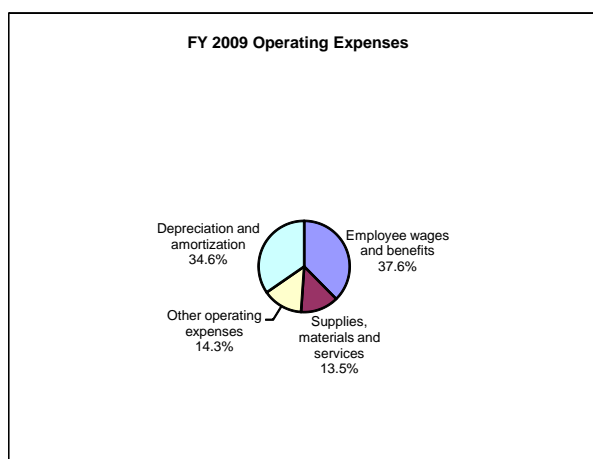
Other revenues decreased by \$785 thousand from fiscal year 2008. This decrease is primarily attributable to decreases in the amounts of revenue recognized related to audits of revenue contracts performed by RIAC's internal audit department. Increases in fiscal year 2008 of \$144 thousand over the prior year relate to audits of revenue contracts performed by RIAC's internal audit department. Audit revenues are typically recognized when such amounts become known.

Parking revenues for fiscal year 2009 decreased by approximately \$438 thousand as a result of declines in passenger traffic at T. F. Green Airport. Parking revenues for fiscal year 2008 increased by \$2.671 million over fiscal year 2007 due to the implementation of a new parking management agreement 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 from a third party for a term of ten years. Effective December 1, 2007, Garage B opened as a general parking facility.

OPERATING EXPENSES

The following chart illustrates major categories of operating expenses for the fiscal years ended June 30, 2009, 2008 and 2007.

	2009	% of Total Operating Expenses	2008	% of Total Operating Expenses	2007	% of Total Operating Expenses
Employee wages and benefits	\$ 19,643,331	37.6%	\$ 19,895,570	39.2%	\$ 18,704,237	39.6%
Supplies, materials and services	7,048,236	13.5%	6,904,356	13.6%	5,804,411	12.3%
Other operating expenses	7,413,882	14.3%	7,348,000	14.4%	6,971,919	14.8%
Depreciation and amortization	18,137,836	34.6%	16,636,179	32.8%	15,725,116	33.3%
TOTAL OPERATING EXPENSES	\$ 52,243,285	100.0%	\$ 50,784,105	100.0%	\$ 47,205,683	100.0%



Employee wages and benefits for fiscal year 2009 decreased by approximately \$252 thousand from prior year amounts due to management's efforts to control these costs. Employee wages and benefits for fiscal year 2008 increased \$1.191 million over prior year amounts by expected increases in wages, insurances and certain benefits.

Supplies, materials and services for fiscal year 2009 increased by approximately \$144 thousand over fiscal year 2008 largely due to increased costs of snow removal supplies and the full year impact of operating and maintenance costs associated with the In-Line Explosive Detection System (EDS) baggage handling system. This increase was partially offset by decreased legal and professional fees. Supplies, materials and services for fiscal year 2008 increased by approximately \$1.1 million over fiscal year 2007 due to operating and maintenance costs associated with the EDS baggage handling system and third party costs related to the Air Monitoring System.

Other operating expenses for fiscal year 2009 decreased by approximately \$66 thousand due to cost savings in several discretionary expense lines. 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.

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.

Fiscal year 2009 PFC revenues were \$9.112 million as compared to \$10.146 million in fiscal year 2008 and \$10.040 million in fiscal year 2007. As of June 30, 2009, \$110.878 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 2009, \$4.185 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 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).

CUSTOMER FACILITY CHARGES

Since July of 2001, RIAC has been collecting Customer Facility Charges (CFCs) 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, 2009 the CFC rate is \$4.50 per eligible transaction day in line with the 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 fiscal year 2009, CFC revenues including audit recoveries were \$5.194 million, as compared to \$6.211 million in fiscal year 2008 and \$4.861 million in fiscal year 2007.

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 2009, RIAC capitalized \$4.763 million in land and easement acquisitions, \$41.971 million in leasehold improvements, and \$2.438 million in machinery and equipment. Additional amounts were added to construction in progress (CIP) to reflect ongoing construction activities during the fiscal year, resulting in an ending balance of \$77.406 million at June 30, 2009.

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.

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

SIGNIFICANT PROJECTS - AIRPORTS

Voluntary Land Acquisition – T. F. Green Airport

In fiscal year 2009, \$3.772 million was expensed in connection with the acquisition of twelve properties under the 70 Day Night Level (DNL) land acquisition program. In fiscal year 2008, \$7.462 million was expensed in connection with the acquisition of thirty-three properties under the 70 DNL land acquisition program. In fiscal year 2009, RIAC began the 2020 No-Build Voluntary Land Acquisition program with approximately \$82 thousand expended on start-up administration costs. Amounts related to the value of land at the time of these acquisitions is capitalized, but not depreciated in accordance with U.S. GAAP.

Energy Conservation Measures – T. F. Green Airport

In fiscal year 2009, \$3.254 million was expended on capital improvements at T. F. Green Airport to certain infrastructure components to achieve energy savings. The costs of these improvements will be offset by utility savings guaranteed by the third party contractor.

Easement Acquisition and Obstruction Removal – Newport, North Central, and Westerly 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. In fiscal year 2009 three projects at three of the six airports resulted in expenditures of \$1.285 million. A total of five projects involving three airports were underway in fiscal year 2008 resulting in expenditures of approximately \$1.142 million.

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

In fiscal year 2009, approximately \$1.648 million was expended on the preparation of a DEIS as outlined in relevant FAA orders in accordance with the National Environmental Policy Act (NEPA) process. The amount expended in fiscal year 2008 totaled approximately \$1.056 million.

Construction of New Customer Hangar - Quonset

This project consists of the design and construction of a multipurpose aircraft hangar. This facility also includes rentable office space and dedicated areas for the provision of Fixed Based Operator (FBO) and general aviation services. Expenditures in fiscal years 2009 and 2008 were \$5.233 million and \$1.437 thousand, respectively. This project is substantially complete as of June 30, 2009.

Terminal Improvement Project – T. F. Green Airport

In fiscal year 2009, RIAC substantially completed the construction related to the Terminal Improvement Project. This project allowed for the removal of the EDS equipment from 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 has been replaced. This project also include a revision of the existing Security Screening Checkpoint (SSCP), the construction of concession areas, new security bypass ramps, and the relocation of vertical circulation at the Airport. Fiscal year 2009 expenditures on this project totaled \$2.938 million. Approximately \$19.574 million was expended on this project in fiscal year 2008.

Airfield Maintenance Facility – T. F. Green Airport

This completed project involved the construction of a new Airfield Maintenance Facility within the Airfield Operations Area (AOA). This completed facility includes snow removal equipment and supplies storage areas, a maintenance garage and administrative space. In fiscal year 2009, the amount expended on this project was \$418 thousand. In fiscal year 2008, the total amount expended was \$1.656 million.

Construction of Taxiway M – T. F. Green Airport

This substantially completed project included the reconstruction and extension of Taxiway M to a full parallel taxiway for Runway 5-23. Expenditures for this project were approximately \$4.383 million in fiscal year 2009 and \$426 thousand in fiscal year 2008.

Commercial Land Acquisition - T. F. Green Airport

RIAC has identified several commercial properties that it deems beneficial to purchase in order to ensure compatible land uses in the vicinity of the T. F. Green. The acquisition of these properties resulted in expenditures in fiscal years 2009 and 2008 of \$2.589 million and \$3 thousand, respectively.

Landside Improvements – Block Island Airport

This project involved the design and construction of a new terminal at Block Island Airport. The new terminal building includes a restaurant, airport management offices, and seating for the general public. A new paved entrance roadway and a new auto parking area were constructed as part of this project. Expenditures for this project were approximately \$3.707 million in fiscal year 2009 and \$2.345 million in fiscal year 2008.

INTERMODAL PROJECT

The Intermodal Facility will include consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters. An elevated and enclosed skywalk system will connect the Intermodal Facility to the Airport. The Intermodal Facility will occupy six levels and include approximately 1.3 million square feet of space. The Intermodal Facility is expected to be completed with a Date of Operational Opening (DOO) in Fall 2010. Expenditures for this project were approximately \$63.438 million in fiscal year 2009 and \$5.398 million in fiscal year 2008.

The Intermodal Facility is estimated to cost approximately \$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.

LONG-TERM DEBT ADMINISTRATION - GENERAL

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, 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, 2009 and 2008 was \$10.11 million and \$11.678 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, 2009 and 2008 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, 2009 and 2008 was \$33.605 million and \$35.08 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 through 2028 with interest coupons ranging from 5.51% to 6.5%. The balance outstanding as of June 30, 2009 and 2008 was \$4.005 million and \$5.19 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 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2009 and 2008 was \$20.6 million and \$23.585 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 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2009 and 2008 was \$49.155 million and \$50.06 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 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, 2009 and 2008 was \$114.66 million and \$114.87 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 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, 2009 and June 30, 2008 was \$50.88 million and \$51.165 million, respectively.

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, 2009 and 2008. 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, 2009 and June 30, 2008 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 \$33.605 million outstanding), 2000 Series A&B Revenue Bonds (\$50.545 million insured by FGIC, \$4.005 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 insured with Assured Guaranty and \$32.85 million outstanding).

The Airport Revenue Refunding Bonds include the 2003 Series A Bonds (\$31.725 million insured by FGIC, with \$20.6 million outstanding), the 2004 Series A Bonds (\$52.665 million insured by FSA, with \$49.155 million outstanding), the 2005 Series C Bonds (\$44.465 million insured by MBIA, with \$43.87 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. Standard and Poor's reaffirmed its BBB+ rating of the Series 2006 First Lien Bonds for the Intermodal Facility Project in August 2008.

CURRENT OPERATIONS AND FINANCIAL SITUATION

T. F. Green Airport continues to experience the effects of the current economic downturn. 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 2009. RIAC's Airline Agreements with its Signatory Airlines expires on June 30, 2010. Management expects to have a new airline agreement negotiated and in place effective July 1, 2010. In fiscal year 2009, RIAC extended the current Collective Bargaining Agreement (CBA) through June 30, 2010. Management expects to have a new CBA negotiated and in place effective July 1, 2010.

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, 2009

	2009	2008
ASSETS		
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 25,795,419	\$ 34,783,533
Accounts receivable, net	4,995,240	6,165,753
Investments	10,000,000	-
Deposits and prepaid items	622,840	768,265
	<u>41,413,499</u>	<u>41,717,551</u>
Restricted assets:		
Restricted cash and cash equivalents	33,896,699	15,604,810
Restricted investments	-	34,096,638
Accounts receivable, net	1,751,043	1,550,460
Deposits and prepaid items	3,267,811	-
Due from primary government	34,337,266	-
	<u>73,252,819</u>	<u>51,251,908</u>
Total current assets	<u>114,666,318</u>	<u>92,969,459</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	77,353,390	95,289,010
Restricted investments	15,879,662	14,990,318
	<u>93,233,052</u>	<u>110,279,328</u>
Accounts receivable	153,429	153,429
Capital assets, net of accumulated depreciation and amortization	462,174,581	386,218,855
Deferred charges, net of accumulated amortization of \$2,626,679 and \$2,231,590 in 2009 and 2008, respectively	6,009,156	6,424,344
Total noncurrent assets	<u>561,570,218</u>	<u>503,075,956</u>
Total assets	<u>676,236,536</u>	<u>596,045,415</u>
LIABILITIES		
Current Liabilities:		
Payable from unrestricted assets:		
Accounts payable	1,451,328	1,708,108
Accrued payroll and employee benefits	1,379,468	1,730,549
Accrued expenses	2,072,990	2,902,718
Deferred revenue	90,051	89,265
Liability for claims, judgements and other settlements	896,000	678,000
Current portion of long-term obligations	746,411	615,544
	<u>6,636,248</u>	<u>7,724,184</u>
Payable from restricted assets:		
Accounts and retainage payable	24,334,525	5,333,636
Accrued expenses	1,925,859	1,948,276
Accrued interest payable	8,037,283	7,585,049
Current portion of long-term obligations	8,065,000	7,045,000
	<u>42,362,667</u>	<u>21,911,961</u>
Total current liabilities	<u>48,998,915</u>	<u>29,636,145</u>
Long-Term Obligations, less current portion	<u>331,365,575</u>	<u>341,688,005</u>
Total liabilities	<u>380,364,490</u>	<u>371,324,150</u>
NET ASSETS		
Invested in capital assets, net of related debt	183,081,737	116,678,979
Restricted	80,164,427	79,366,316
Unrestricted	32,625,882	28,675,970
Total net assets	<u>\$ 295,872,046</u>	<u>\$ 224,721,265</u>

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

RHODE ISLAND AIRPORT CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Charges for services:		
Rental and concession fees	\$ 26,080,630	\$ 26,986,515
Landing fees and airfield revenues	14,171,585	14,444,179
Parking	13,584,610	14,022,348
Total operating revenues	53,836,825	55,453,042
OPERATING EXPENSES		
Employee wages and benefits	19,643,330	19,895,570
Supplies, materials and services	7,048,236	6,904,356
Other operating expenses	7,413,883	7,348,000
Depreciation and amortization	18,137,836	16,636,179
Total operating expenses	52,243,285	50,784,105
Operating income	1,593,540	4,668,937
NONOPERATING REVENUES (EXPENSES)		
Passenger facility charges	9,111,640	10,146,124
Customer facility charges	5,193,912	6,211,325
Investment income	1,727,524	4,018,547
Claims, judgements and other settlements	(180,301)	1,572,000
Other	80,715	107,921
Grant revenues for Noise Mitigation Program	3,820,048	8,336,481
Grant expenses for Noise Mitigation Program	(3,403,122)	(7,462,405)
Interest expense	(14,193,806)	(13,550,155)
Total nonoperating revenues, net	2,156,610	9,379,838
Income before capital contributions	3,750,150	14,048,775
CAPITAL CONTRIBUTIONS	67,400,631	22,353,876
Change in net assets	71,150,781	36,402,651
NET ASSETS, beginning of year	224,721,265	188,318,614
NET ASSETS, end of year	\$ 295,872,046	\$ 224,721,265

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, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Receipts from rentals and other services or fees	\$ 54,142,994	\$ 58,017,075
Payments to employees for services	(19,956,713)	(19,782,254)
Payments to suppliers and other	(15,753,083)	(12,943,726)
Claims, judgements and other settlements	-	(1,673,575)
Net cash provided by operating activities	18,433,198	23,617,520
Cash Flows From Noncapital Financing Activities		
Noise Mitigation Program receipts	3,820,048	8,336,481
Noise Mitigation Program payments	(3,403,122)	(7,462,405)
Net cash provided by noncapital financing activities	416,926	874,076
Cash Flows From Capital and Related Financing Activities		
Collection of passenger facility charges	8,736,410	11,227,865
Collection of customer facility charges	5,346,315	6,570,746
Proceeds from sale of capital assets	45,988	31,717
Other	39,715	107,921
Interest paid, long-term obligations	(13,079,389)	(12,962,868)
Capital contributions and grant revenues, net	33,875,341	(4,100,529)
Acquisition and construction of capital assets	(78,227,803)	(42,200,756)
Costs of issuance	-	(363,416)
Proceeds from long-term obligations	-	32,001,889
Payments on long-term obligations	(9,171,563)	(8,494,690)
Net cash used in capital and related financing activities	(52,434,986)	(18,182,121)
Cash Flows From Investing Activities		
Proceeds from sale and maturity of investments	47,457,760	54,646,676
Interest on investments	1,745,398	4,133,264
Purchases of investments	(24,250,141)	(45,877,370)
Net cash provided by investing activities	24,953,017	12,902,570
Net (decrease) increase in cash and cash equivalents	(8,631,845)	19,212,045
Cash and cash equivalents, beginning of year	145,677,353	126,465,308
Cash and cash equivalents, end of year	\$ 137,045,508	\$ 145,677,353
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Current unrestricted assets	\$ 25,795,419	\$ 34,783,533
Current restricted assets	33,896,699	15,604,810
Noncurrent restricted assets	77,353,390	95,289,010
	\$ 137,045,508	\$ 145,677,353

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, 2009 and 2008

	2009	2008
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 1,593,540	\$ 4,668,937
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,137,836	16,636,179
Gain on disposal of capital assets	-	(17,823)
Claims, judgements and other settlements	-	1,572,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	305,382	2,497,368
Deposits and prepaid items	(3,122,711)	(559,096)
Increase (decrease) in:		
Accounts payable	1,618,785	758,432
Accrued expenses	(100,420)	(2,005,142)
Deferred revenue	786	66,665
Net cash provided by operating activities	\$ 18,433,198	\$ 23,617,520

Supplemental Disclosure for Cash Flow Information

Noncash capital and related financing activities:

Capital assets recorded through capital contributions	\$ -	\$ 18,802,000
Capital assets acquired through accounts payable	25,881,777	6,879,918
Capital contribution recognized through accounts receivable	35,594,844	2,127,079
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	415,188	325,103

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS June 30, 2009

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

Reporting entity

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.

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.

Measurement focus and basis of accounting

The accounting policies of RIAC conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, RIAC is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in RIAC net assets. RIAC applies all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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. The major components of the nonoperating revenue sources are interest income from cash and investments, certain legal settlement income and passenger facility

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

charges. The major components of nonoperating expense sources are expenditures for the Noise Mitigation program, interest expense and other nonoperating expenses such as legal settlements. 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

For the purposes of the Statement of Cash Flows, 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 6). Such amounts totaled \$5,100,000 as of June 30, 2009 and 2008.

Receivables

Receivables are reported at the original amount billed less an estimate made for doubtful accounts. Management determines the allowance, for doubtful accounts by identifying troubled accounts and by using historical experience, aviation industry trends and current information regarding the credit worthiness of the debtors. RIAC requires collateral or other forms of security from certain customers.

Receivables from state and federal agencies are reported based on reimbursable capital expenditures.

Investments

Investments, which include money market funds, U.S Treasury Notes and commercial paper, with maturities of greater than three months, are recorded at fair market value. Certificates of deposit are recorded at cost, which approximates fair value.

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 Certain Expenditures

These assets are restricted under RIAC's capital grants and other agreements for certain capital projects and operating expenses. 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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

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 amounts expended from the 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 Program are expensed as incurred except for the value of the land acquired, which is capitalized. Interest expense incurred on bonds payable during the construction phase of capital assets, net of interest income earned on project specific bond proceeds invested over the same period, is included as part of the capitalized value of the assets constructed.

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

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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 represents 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. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted Net Assets - RIAC's net assets are reported as restricted when there are limitations imposed on its use, either through external restrictions imposed by creditors, grantors, laws or regulations of the State of Rhode Island or other governments.

Unrestricted Net Assets - This category represents the net assets of RIAC, which are not externally restricted for any project or purpose.

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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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 approximately \$167,726,000 based on a rate of \$4.50 per enplaned passenger. Aggregate collections, including interest thereon, through June 30, 2009 were approximately \$110,878,000. 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") per transaction day on substantially all car rentals. Effective January 1, 2009 the CFC is \$4.50, 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.

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 when eligibility requirements are met.

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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

Noise Mitigation Program

The Noise Mitigation 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 accordance 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 2008 financial statements to conform to the current year presentation.

Pronouncements issued, not yet effective:

The GASB issued pronouncements prior to June 30, 2009 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of RIAC:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement issued July 2007, will be effective for RIAC beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement, issued June 2008, will be effective for RIAC beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The objectives, terms and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Note 2. Cash, Cash Equivalents and Investments

Components of cash and investments at June 30 are summarized below:

	<u>2009</u>	<u>2008</u>
Unrestricted cash and cash equivalents		
Demand deposits	\$ 25,795,419	\$ 34,783,533
Unrestricted cash and cash equivalents	25,795,419	34,783,533
Restricted cash, cash equivalents and investments		
Demand deposits	29,028,724	14,776,313
Money Market funds	4,867,975	828,497
U.S. Treasury bills	-	34,096,638
Total restricted cash, cash equivalents and investments	33,896,699	49,701,448
Unrestricted investments:		
Certificates of deposits	10,000,000	-
Total cash equivalents and investments	69,692,118	84,484,981
Non-current restricted assets:		
Money Market funds	77,353,390	95,289,010
U.S. Treasury Notes	8,295,567	14,990,318
Commercial paper interest	7,584,095	-
Total non-current assets	93,233,052	110,279,328
Total cash and investments	\$ 162,925,170	\$ 194,764,309

Deposits

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 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

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

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.

The bank balances of RIAC's cash deposits approximately \$66,211,000 and \$82,451,000 that were exposed to custodial credit risk as of June 30, 2009 and 2008, respectively are as follows:

	<u>2009</u>	<u>2008</u>
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent in RIAC's name	<u>\$ 65,710,578</u>	<u>\$ 82,250,677</u>
	<u>\$ 65,710,578</u>	<u>\$ 82,250,677</u>

RIAC is permitted to invest funds in certificates of deposit, savings accounts, money market accounts, commercial paper, 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.

Interest rate risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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. Information about the exposure of the entity's debt type investments to this risk using segmented time distribution model is as follows:

Type of Investment	Fair Value	<u>2009</u>	
		<u>Investment Maturities</u>	
		<u>(in Years)</u>	
		<u>Less Than</u>	
		<u>1 Year</u>	<u>1-5 Years</u>
Money market funds	\$ 82,221,365	\$ 82,221,365	\$ -
U.S. Treasury Notes	8,295,567	759,080	7,536,487
Commercial Paper	7,584,095	7,584,095	-
	<u>\$ 98,101,027</u>	<u>\$ 90,564,540</u>	<u>\$ 7,536,487</u>

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Type of Investment	Fair Value	2008	
		Investment Maturities (in Years)	
		Less Than 1 Year	1-5 Years
Money market funds	\$ 64,869,389	\$ 64,869,389	\$ -
U.S. Treasury Notes	14,990,328	-	14,990,318
U.S. Treasury Bills	34,096,638	34,096,638	-
	<u>\$ 113,956,355</u>	<u>\$ 98,966,027</u>	<u>\$ 14,990,318</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.

Credit risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

Presented below is the minimum rating as required for each debt type investment. 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 funds, 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.

	2009		2008
	AAA	AA1	AAA
Money Market funds	\$ 82,221,365	\$ -	\$ 64,869,389
Commercial Paper	-	7,584,095	-
	<u>\$ 82,221,365</u>	<u>\$ 7,584,095</u>	<u>\$ 64,869,389</u>

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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

RIAC's investments are held by the counterparty and 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.

Note 3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unrestricted:		
Accounts receivable, trade	\$ 4,302,231	\$ 5,030,279
Due from federal government	1,257,579	2,127,080
Due from primary government	15,888	15,888
	<u>5,575,698</u>	<u>7,173,247</u>
Less: allowance for uncollectible amounts	427,029	854,065
	<u>\$ 5,148,669</u>	<u>\$ 6,319,182</u>

The amount due from a tenant for leasehold improvements which was funded by RIAC totaled \$153,000 as of June 30, 2009 and 2008 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.

	<u>2009</u>	<u>2008</u>
Restricted		
Due from airlines - Passenger Facility Charges	\$ 1,242,470	\$ 867,240
Due from car rental agencies - Customer Facility Charges	495,273	647,676
Due from primary government	34,337,266	-
Interest	13,300	35,544
	<u>\$ 36,088,309</u>	<u>\$ 1,550,460</u>

The amounts due from Rhode Island Department of Transportation are based on expenditures incurred by RIAC under the terms of the Project Agreement for the Construction of the Intermodal Facility.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2009 and 2008 is as follows:

	2009			Ending Balance
	Beginning Balance	Increases	Decreases/Transfers	
Capital assets, not being depreciated:				
Land	\$ 27,497,816	\$ 4,763,127	\$ -	\$ 32,260,943
Construction in progress	32,280,243	89,535,346	(44,409,280)	77,406,309
Total capital assets, not being depreciated	59,778,059	94,298,473	(44,409,280)	109,667,252
Capital assets, being depreciated:				
Assets leased from the State	30,608,849	-	-	30,608,849
Leasehold improvements	428,724,080	41,970,797	(10,078)	470,684,799
Machinery and equipment	24,350,227	2,438,483	(278,698)	26,510,012
Vehicles	1,942,747	-	(57,018)	1,885,729
Total capital assets being depreciated	485,625,903	44,409,280	(345,794)	529,689,389
Less accumulated depreciation for:				
Assets leased from the State	(20,501,714)	(4,087,490)	(699,816)	(25,289,020)
Leasehold improvements	(122,658,319)	(11,888,338)	771,583	(133,775,074)
Machinery and equipment	(14,613,918)	(2,200,386)	217,623	(16,596,681)
Vehicles	(1,411,156)	(156,080)	45,951	(1,521,285)
Total accumulated depreciation and amortization	(159,185,107)	(18,332,294)	335,341	(177,182,060)
Total capital assets, being depreciated, net	326,440,796	26,076,986	(10,453)	352,507,329
Total capital assets, net	\$ 386,218,855	\$ 120,375,459	\$ (44,419,733)	\$ 462,174,581

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

	2008			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 21,906,381	\$ 5,591,435	\$ -	\$ 27,497,816
Construction in progress	120,139,603	82,987,597	(170,846,957)	32,280,243
Total capital assets, not being depreciated	142,045,984	88,579,032	(170,846,957)	59,778,059
Capital assets, being depreciated:				
Assets leased from the State	30,608,849	-	-	30,608,849
Leasehold improvements	288,767,807	139,956,273	-	428,724,080
Machinery and equipment	21,105,694	3,274,863	(30,330)	24,350,227
Vehicles	1,997,041	39,547	(93,841)	1,942,747
Total capital assets being depreciated	342,479,391	143,270,683	(124,171)	485,625,903
Less accumulated depreciation for:				
Assets leased from the State	(19,433,890)	(1,067,824)	-	(20,501,714)
Leasehold improvements	(109,465,634)	(13,192,736)	51	(122,658,319)
Machinery and equipment	(12,348,045)	(2,284,980)	19,107	(14,613,918)
Vehicles	(1,288,900)	(212,348)	90,092	(1,411,156)
Total accumulated depreciation and amortization	(142,536,469)	(16,757,888)	109,250	(159,185,107)
Total capital assets, being depreciated, net	199,942,922	126,512,795	(14,921)	326,440,796
Total capital assets, net	\$ 341,988,906	\$ 215,091,827	\$ (170,861,878)	\$ 386,218,855

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, 2009 and 2008 is as follows:

	2009	2008
Interest expense capitalized	\$ 3,255,537	\$ 2,986,622
Less: interest income	714,156	2,227,095
Total capitalized interest, net	\$ 2,541,381	\$ 759,527

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Revenue and special facility bonds payable

Revenue and special facility bonds payable consist of the following as of June 30, 2009 and 2008:

Description	Date of Maturity	Interest Rate	2009	2008
1994 Series A bonds	07/01/2014	5.25%-7.0%	\$ 6,070,000	\$ 6,070,000
1998 Series A and B bonds	07/01/2028	4.2%-5.25%	33,605,000	35,080,000
2000 Series A and B bonds	07/01/2028	5.51%-6.5%	4,005,000	5,190,000
2003 Series A bonds	07/01/2015	3.5%-5.0%	20,600,000	23,585,000
2004 Series A bonds	07/01/2024	2.0%-5.0%	49,155,000	50,060,000
2005 Series A, B and C bonds	07/01/2030	3.0%-5.0%	114,660,000	114,870,000
2008 Series A, B and C bonds	07/01/2038	3.5%-5.25%	50,880,000	51,165,000
Total revenue bonds payable			278,975,000	286,020,000
2006 First Lien Special Facility Bonds	07/01/2036	4.0%-5.0%	48,765,000	48,765,000
Total revenue and special facility bonds payable			\$ 327,740,000	\$ 334,785,000

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:

Year Ending June 30:	Principal	Interest	Total
2010	\$ 8,151,036	\$ 16,175,454	\$ 24,326,490
2011	10,489,875	15,711,470	26,201,345
2012	11,903,468	15,172,215	27,075,683
2013	12,492,422	14,585,951	27,078,373
2014	13,267,790	13,803,797	27,071,587
2015-2019	72,235,000	60,285,410	132,520,410
2020-2024	86,820,000	40,489,914	127,309,914
2025-2029	70,825,000	21,025,781	91,850,781
2030-2034	31,825,000	8,129,602	39,954,602
2035-2039	20,460,000	2,083,726	22,543,726
	\$ 338,469,591	\$ 207,463,320	\$ 545,932,911

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

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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. As the intermodal is in the construction phase and only has cash, capital assets and debt, no segment information is presented.

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, 2009 and 2008, \$42,165,000 and \$60,225,000, respectively of outstanding revenue bonds, including prior year refundings, are considered defeased.

Pledged Revenues

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged Net Revenues derived from the operation by RIAC of the Airport and Certain Outlying Airports to repay \$278,975,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts Available to Pay Debt Service per the Master Indenture, including pledged Passenger Facility Charges, were approximately \$33,578,000 and \$36,492,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Principal and interest payments for the years ended June 30, 2009 and June 30, 2008 were approximately \$21,703,000 and \$18,819,000, respectively.

RIAC has pledged Facility Revenues related to the Intermodal Facility, net of specified operating expenses, to repay \$48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds are being used for the construction of the Intermodal Facility. Facility Revenues, including Customer Facility Charges, were \$5,194,000 and \$6,211,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Interest paid for the years ended June 30, 2009 and June 30, 2008 were approximately \$2,418,000 for each year. Principal payments commence on July 1, 2011.

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 8). As of June 30, 2009 and 2008, the amounts owed were approximately \$10,110,000 and \$11,678,000 respectively.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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. As of June 30, 2009 and 2008 the amounts owed were approximately \$619,000 and \$702,000 respectively.

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Machinery and equipment	\$ 7,006,721	\$ 8,464,850
Less: accumulated amortization	4,911,869	4,916,230
	<u>\$ 2,094,852</u>	<u>\$ 3,548,620</u>

Amortization expense relative to leased property under capital leases totaled approximately \$680,000 and \$770,000 for the years ended June 30, 2009 and 2008, respectively and is included in depreciation and amortization expense disclosed in Note 4.

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2009 are as follows:

Year Ending June 30:	
2010	\$ 714,971
2011	534,577
2012	324,396
2013	64,700
Total minimum lease payments	<u>1,638,644</u>
Less: amount representing interest	95,864
Present value of minimum lease payments	<u>\$ 1,542,780</u>

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

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

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, 2009 and 2008, RIAC had approximately \$83,000 in borrowings under this agreement.

Note 6. Net Assets

Restricted net assets consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Restricted:		
Capital acquisition and construction	\$ 47,305,497	\$ 34,338,516
Passenger Facility Charges	10,217,416	9,146,956
Customer Facility Charges	16,432,789	29,759,265
Operating and maintenance reserve	5,708,725	5,621,579
Repair and rehabilitation reserve	500,000	500,000
	<u>\$ 80,164,427</u>	<u>\$ 79,366,316</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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unrestricted net assets designated for capital acquisition, construction and operating costs	\$ 5,100,000	\$ 5,100,000
Unrestricted undesignated net assets	27,525,882	23,575,970
	<u>\$ 32,625,882</u>	<u>\$ 28,675,970</u>

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Note 7. Operating Leases As Lessor

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

Year Ending June 30:	
2010	\$ 3,395,443
2011	3,455,729
2012	3,523,839
2013	3,593,416
2014	2,916,223
2015-2019	14,381,257
2020-2030	2,347,501
	<u>\$ 33,613,408</u>

In the event of tenant default, RIAC has the right to reclaim its leased property together with any improvements thereon.

Note 8. 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 5). 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 \$525,778 and \$718,322 as of June 30, 2009 and 2008, respectively, and are included in accrued expenses in the accompanying statements of net assets.

Note 9. 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

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

of RIAC employees covered by the Plan throughout the year averaged nineteen in 2009 and twenty in 2008, respectively. RIAC's total payroll for the year ended June 30, 2009 was approximately \$13,901,000, of which \$1,277,000 was covered under the Plan. RIAC's total payroll for the year ended June 30, 2008 was \$14,797,000, of which \$1,362,000 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:

Years of Credited Service	Percent Per Year
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 21.64% and 20.77% of salary for fiscal 2009 and 2008, 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 FINANCIAL STATEMENTS, Continued
June 30, 2009

The amounts contributed to the Plan are as follows:

<u>Year ended June 30,</u>	RIAC Required Contribution	Percentage Contributed
2009	\$ 276,372	100%
2008	282,891	100%
2007	254,691	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 158 in 2009 and 164 in 2008. RIAC's total payroll for the year ended June 30, 2009 was approximately \$13,901,000, of which \$10,403,000 was covered under the Plan. RIAC's total payroll for the year ended June 30, 2008 was \$14,797,000, of which \$9,955,000 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, 2009 were \$624,157 by the employer and \$640,538 by the employees. Total contributions for the year ended June 30, 2008 were \$597,324 by the employer and \$616,174 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.

Note 10. 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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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, 2009 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 covered Rhode Island Airport Corporation employees who retire on or before June 30, 2009, 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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

The retirees' fiscal 2009 contributions are as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
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 for fiscal year 2009 is \$789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of \$481.28 (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 \$201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was \$107.00 for the first six months of fiscal year 2009 and \$115.00 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

For any covered Rhode Island Airport Corporation employee who retired on or after July 1, 2009, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed \$631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in note (3) above.

Annual OPEB Cost

RIAC recognized an expense equal to the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with of GASB Statement 45 interest on the net OPEB obligation at the

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

beginning of the fiscal year and the ARC adjustment. 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. The ARC for fiscal year 2009 was determined based on an actuarial valuation performed as of June 30, 2005. For fiscal year 2009, the ARC, as a percentage of covered payroll for participating component units was the same for all active plan members, 6.01% of covered payroll. The number of RIAC employees covered by the Plan throughout the year averaged nineteen in 2009 and twenty in 2008. Beginning with the actuarial valuation performed as of June 30, 2007, separate ARCs and unfunded actuarial accrued liabilities were determined for each participating component unit. RIAC actually contributed 5.62% of annual covered payroll for fiscal 2009. RIAC's annual OPEB cost and the net OPEB obligation for fiscal 2009, were as follows:

Annual required contribution (ARC)	\$ 76,756
Plus: Interest on net OPEB obligation at beginning of year	1,156
Less: Adjustment to ARC	<u>1,092</u>
Annual OPEB cost	76,820
Contributions made	<u>70,651</u>
Increase in OPEB obligation	6,169
Net obligation at beginning of year	<u>32,416</u>
Net obligation at end of year	<u><u>\$ 38,585</u></u>

RIAC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 (first year of GASB 45 implementation) were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$80,059	65%	\$32,416
6/30/2009	76,820	92%	38,585

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

Funded Status and Funding Progress

The funded status of RIAC's share of the plan as of June 30, 2007, was as follows:

	<u>2009</u>
Annual Accrued Liability (AAL)	\$ 1,291,388
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,291,388</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$1,277,137
UAAL as a Percentage of Covered Payroll	101%

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.

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 Annual Required Contributions for fiscal year 2009 was determined based on the June 30, 2005 valuation. The most recent actuarial valuation was performed at June 30, 2007. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006.

Plan changes effective for covered Rhode Island Airport Corporation employees retiring after July 1, 2009 have been reflected in the actuarial valuation performed as of June 30, 2007 and June 30, 2005.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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 based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State General Fund; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years for 2005 valuation; and a salary growth rate ranging from 8.25% in the first year to 4.75% in year 15 and beyond for the 2005 valuation. In the June 30, 2007 valuation the health care cost trend assumption was changed to a rate of 10% progressively declining to 4.5% after 8 years and the salary growth assumption was changed to a rate of 9.00% in the first year of service to 4.5% in year 15 and beyond. Other changes in assumptions between the 2005 and 2007 valuations include changes in the assumed rates of termination, rates of retirement, percent married, and retiree health care election rates. These assumptions changes were based on the experience study for the Employees' Retirement System of Rhode Island as well as anticipated experience changes in conjunction with the adopted plan changes.

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.

Note 11. 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. At June 30, 2009 and 2008 there are no material liabilities outstanding.

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; catastrophic events 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 12. Major Customers

For the years ended June 30, 2009 and 2008, approximately 16% of RIAC's income was derived from sales made to one customer. Accounts receivable from this customer were approximately 20% and 12% of unrestricted accounts receivable, respectively.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the seven Signatory Airlines as of June 30, 2009. 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.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

Note 13. 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, 2009 and 2008, 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 adverse 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 adverse effect on RIAC's financial statements.

In connection with these matters, RIAC has recorded estimated liabilities for claims, judgments and other settlements totaling \$896,000 and \$678,000 as of June 30, 2009 and 2008, 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

SCHEDULE OF FUNDING PROGRESS FOR THE RHODE ISLAND RETIREE HEALTH CARE BENEFIT PLAN

June 30, 2009

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)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2007	\$ -	\$ 1,291,388	\$ 1,291,388	0%	\$ 1,277,137	101%

Prior to the valuation performed at June 30, 2007, separate actuarial valuations were not performed to determine the actuarial accrued liability for RIAC, a participating employer.

Supplementary Information

RHODE ISLAND AIRPORT CORPORATION

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

For the Year Ended June 30, 2009

Employee	Purpose	Date	Place		
K Dillon	AAAE Energy/Air Service Summit	7/9/08 to 7/11/08	Washington, DC	\$	772
L Benevides	Association of Certified Fraud Examiners Annual Conference	7/13/08 to 7/16/08	Boston, MA		720
D Stolyarov	Cisco Training	7/13/08 to 7/27/08	Atlanta, GA		293
D. Lucas	Department of Transportation Hazardous Material Shipping Training	7/22/08 to 7/25/08	Norfolk, VA		890
S Traficante	50th Annual NEC/AAAE Conference	8/9/08 to 8/13/08	Philadelphia, PA		1,308
J Ottaviano	2008 Airport Law Enforcement Agencies Network Fall Conference	9/28/08 to 10/2/08	Las Vegas, NV		1,170
K Dillon	Airline Visit	10/1/08	Forest Hills, NY		324
P Goldstein	Airline Visit	10/1/08	Forest Hills, NY		239
K Dillon	Airline Visit	10/19/08 to 10/24/08	Dublin, Ireland		3,248
P Goldstein	Airline Visit	10/19/08 to 10/24/08	Dublin, Ireland		2,862
S Cahill	AAAE Airport Security Coordinator School	11/2/08 to 11/4/08	Memphis, TN		839
S Traficante	Planning Committee for the Northeast Chapter 2009 Conference	11/7/08 to 11/8/08	Baltimore, MD		494
Various	Providence Chamber Annual Dinner	11/24/08	Providence, RI		1,250
J Warcup	Bell Helicopter Training	2/8/09 to 2/11/09	Ft. Worth, TX		727
P Goldstein	Network USA 2009 Conference	2/28/09 to 3/4/09	Dallas, TX		921
T Pimental	Network USA 2009 Conference	2/28/09 to 3/4/09	Dallas, TX		832
K Dillon	Airline Visit	3/9/09 to 3/10/09	Phoenix, AZ		560
P Goldstein	Airline Visit	3/9/09 to 3/10/09	Phoenix, AZ		493
A Andrade	Airway Facility Terminal Intergration Lab Meeting	3/31/09 to 4/3/09	Atlantic City, NJ		284
A Clarke	Airway Facility Terminal Intergration Lab Meeting	3/31/09 to 4/3/09	Atlantic City, NJ		288
K Dillon	Airline Visit	4/15/09 to 4/19/09	Orlando, FL		587
R Bateman	NEC/AAAE Snow Symposium	4/25/09 to 4/30/09	Buffalo, NY		895
Various	Economic Outlook Luncheon	5/6/09	Providence, RI		750
Various	Business Outreach Breakfast	5/12/09	Providence, RI		957
A Clarke	Intermodal Meeting	5/14/09 to 5/15/09	Philadelphia, PA		254
S McElroy	TSA Explosive Demolition Team Training	5/25/09 to 6/24/09	San Antonio, TX		762
P Goldstein	Jumpstart Conference	5/31/09 to 6/4/09	Montreal, Quebec		1,677
T Pimental	Jumpstart Conference	5/31/09 to 6/4/09	Montreal, Quebec		1,481
K Dillon	81st Annual AAAE Conference and Exposition	6/12/09 to 6/18/09	Philadelphia, PA		2,125
K Dillon	Business Meeting	6/30/09	Warwick, RI		352
Various	Mileage, Parking, Tolls & Gas Reimbursement	7/1/08 to 6/30/09	Warwick, RI		5,888
Various	Snow Meals	7/1/08 to 6/30/09	Warwick, RI		7,443
Various	Various Meeting Expenses	7/1/08 to 6/30/09	Warwick, RI		8,758
Various	Various Employee trips to Block Island	7/1/08 to 6/30/09	Block Island, RI		3,726
Various	Miscellaneous Amounts under \$200	7/1/08 to 6/30/09	Warwick, RI		3,567
				\$	<u>57,736</u>

Internal Control and Compliance Report

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE 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 financial statements of the Rhode Island Airport Corporation ("RIAC") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 30, 2009. 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 auditing procedures for the purpose of expressing our opinions on the basic 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 and 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 generally accepted accounting principles 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 that are also considered to be material weaknesses. We did not identify any significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Rhode Island Airport Corporation'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 Board of Directors and management of the Rhode Island Economic Development Corporation, the Rhode Island Office of the Auditor General and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New Haven, Connecticut
September 30, 2009