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STATE OF RHODE ISLAND

**REFUNDING BOND AUTHORITY**

(A Component Unit of the  
State of Rhode Island)

YEAR ENDED JUNE 30, 2003

Ernest A. Almonte, CPA, CFE  
Auditor General

State of Rhode Island and Providence Plantations  
General Assembly  
Office of the Auditor General

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

October 14, 2003

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER William J. Murphy, Chairman

Senator William V. Irons  
Senator Dennis L. Algieri  
Representative Gordon D. Fox  
Representative Robert A. Watson

We have completed our audit of the financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ended June 30, 2003 in accordance with Section 35-8.1-10 of the General Laws.

Our reports are contained herein as outlined in the Table of Contents.

Sincerely,

Ernest A. Almonte, CPA, CFE  
Auditor General

**Rhode Island Refunding Bond Authority**  
(A Component Unit of the State of Rhode Island)

**Year Ended June 30, 2003**

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## **INDEPENDENT AUDITOR'S REPORT**

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF DIRECTORS OF THE RHODE ISLAND REFUNDING BOND AUTHORITY:

We have audited the accompanying statement of net assets of the Rhode Island Refunding Bond Authority (the Authority), a component unit of the State of Rhode Island and Providence Plantations, as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 statements referred to above present fairly, in all material respects, the net assets of the Authority as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, collection of rentals due is dependent upon annual appropriations by the General Assembly of the State of Rhode Island.

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
BOARD OF DIRECTORS OF THE RHODE ISLAND REFUNDING BOND AUTHORITY  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it. The combining fund statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.



Ernest A. Almonte, CPA, CFE  
Auditor General

September 26, 2003

# **RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

## **Management's Discussion and Analysis**

Management of the Rhode Island Refunding Bond Authority (Authority) provides this Management's Discussion and Analysis of their financial performance for the readers of the Authority's financial statements. This narrative provides an overview of the Authority's financial activity for the year ended June 30, 2003. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Authority's financial activities based on facts, decisions and conditions currently facing management.

### Understanding the Authority's Financial Statements

The Authority serves as a financing mechanism for the State of Rhode Island. It was originally created to pay, redeem, or retire all or part of some of the State's general obligation bonds, and it later acquired the functions of the Rhode Island Public Buildings Authority whose purpose was to finance the acquisition, construction and improvement of public facilities through the issuance of revenue bonds. All Authority debt is repaid via annual payments made by the State in amounts equal to debt service requirements. The operating expenses of the authority are also reimbursed by the State.

The Authority is a component unit of the State of Rhode Island and Providence Plantations ("State") and its financial activity is blended into the State's financial statements. In accordance with generally accepted accounting principles, this report consists of a series of financial statements, along with notes to the financial statements. The financial statements immediately follow this discussion and analysis and are designed to highlight the Authority's net assets and changes to those net assets resulting from the Authority's activity.

Multiple funds were established to account for the Authority's activities as required by the underlying bond resolutions. The combining financial statements detail all individual fund activity and are presented beginning on page 18.

# **RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

## **Management's Discussion and Analysis**

### Financial Highlights for the Year Ending June 30, 2003

- ❑ Bonds payable at June 30, 2003 decreased \$23,243,322 (17.7%) when compared to June 30, 2002.
- ❑ Rentals due and the amount due from the State at June 30, 2003 decreased \$8,556,445 (7.2%) when compared to June 30, 2002.
- ❑ The Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A (the "Refunding Bonds") dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A (the "Refunded Bonds") originally issued by the Rhode Island Public Buildings Authority. A portion of the proceeds of the Refunding Bonds, together with amounts contributed from the Debt Service Reserve Fund for the refunded Bonds, was used to purchase a U.S. Treasury Security which was placed into an escrow account to provide for future debt service (including call premium) on the Refunded Bonds. The Escrow Agent redeemed the Refunded Bonds on June 5, 2003, at a redemption price equal to 102% of par value plus accrued interest to such date.
- ❑ The Debt Service Reserve Fund for the Refunded Bonds was invested in an investment agreement originally scheduled to mature in 2010. The agreement was terminated on April 30, 2003 to effect the refunding of the Refunded Bonds. The early termination of the investment agreement resulted in a payment to the Authority of \$1.2 million and recognition of previously deferred income of approximately \$300 thousand. These amounts are reflected as an extraordinary gain on the accompanying financial statements.
- ❑ Early termination of the investment contract created an arbitrage rebate liability on the Refunded Bonds. Approximately \$1.2 million was deposited into the Authority's revenue fund to satisfy the rebate requirement which is due approximately 90 days after the redemption of the Refunded Bonds.
- ❑ Final redemption of one of the Authority's bond issues was accomplished during fiscal 2003. All amounts have been redeemed for the original Refunding Bond Authority's 1988 Series A Bonds.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
(A Component Unit of the State of Rhode Island)

**Management's Discussion and Analysis**

<u>Assets, Liabilities and Net Assets</u>		
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets:		
Current assets		
Cash, cash equivalents and investments	\$ 293,108	\$ 290,437
Amounts due from the State	17,619,726	18,135,230
Noncurrent assets		
Restricted cash and cash equivalents	1,984,907	371,788
Restricted investments	-	17,007,521
Amounts due from the State	93,149,609	101,257,240
Debt issuance costs	<u>2,244,785</u>	<u>2,063,550</u>
	<u>\$ 115,292,135</u>	<u>\$ 139,125,766</u>
Liabilities:		
Current:		
Accounts payable	\$ 12,795	\$ 5,029
Interest payable	1,643,673	3,040,659
Arbitrage rebate payable	1,199,404	-
Bonds payable	15,975,000	15,115,000
Long-Term:		
Project acquisition promissory notes	4,435,076	4,435,076
Bonds payable	91,732,821	115,902,833
Deferred revenue	-	<u>336,932</u>
	<u>\$ 114,998,769</u>	<u>\$ 138,835,529</u>
Net Assets:		
Restricted	\$ 100,000	\$ 100,000
Unrestricted	<u>193,366</u>	<u>190,237</u>
Total net assets	<u>\$ 293,366</u>	<u>\$ 290,237</u>

The Authority's restricted investments decreased due to the refunding of certain Authority bonds which involved use of amounts available in the debt service reserve fund. Amounts due from the State approximate the Authority's bonds and notes payable plus current interest payable. Decreases in bonds payable due to scheduled payments of principal cause a similar decrease in amounts due from the State.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
(A Component Unit of the State of Rhode Island)

**Management's Discussion and Analysis**

<u>Authority Operations</u>		
	<b>Year Ended June 30, 2003</b>	<b>Year Ended June 30, 2002</b>
Rental income	\$ 6,190,603	\$ 6,858,561
Other operating revenue	117,998	171,549
Operating expenses	<u>(391,912)</u>	<u>(374,216)</u>
Operating income	5,916,689	6,655,894
Other income	892,325	1,517,465
Interest expense	(6,509,575)	(8,041,916)
Arbitrage rebate	(1,199,404)	-
Other expenses	<u>(606,412)</u>	<u>(125,294)</u>
Special item, gain on termination of investment agreement	1,509,506	-
Change in net assets	3,129	6,149
Net assets, beginning of year	<u>290,237</u>	<u>284,088</u>
Net assets, end of year	<u><u>\$ 293,366</u></u>	<u><u>\$ 290,237</u></u>

Amounts are paid by the State equal to the annual debt service requirements of the Authority plus reimbursement for operating and administrative costs. Net assets consist of amounts held in the Authority's general fund which accounts for the administrative activities of the Authority. Increases in net assets result primarily from investment earnings retained within the Authority's general fund.

Future Operations

Debt service payments on the Authority's remaining two bond issues will continue through fiscal 2010 and will require annual payments from the State equal to the required debt service amounts.

Contacting the Authority's Financial Management

This discussion and analysis presentation is designed to provide a general overview of the Authority's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy General Treasurer for Finance, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903, telephone 401.222.2287.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**(A Component Unit of the State of Rhode Island)**

**STATEMENT OF NET ASSETS**  
**June 30, 2003**

**ASSETS**

Current assets:

Cash and cash equivalents (Note 4)	\$	293,108
Due from State (Note 2)		1,053
Rentals due (Note 3)		17,618,673
<b>Total current assets</b>		<u>17,912,834</u>

Noncurrent assets:

Restricted cash and cash equivalents		1,984,907
Rentals due (Note 3)		93,149,609
Debt issuance costs		2,244,785
<b>Total noncurrent assets</b>		<u>97,379,301</u>

<b>Total assets</b>	<b>\$</b>	<u>115,292,135</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	\$	12,795
Interest payable		1,643,673
Aribtrage rebate payable (Note 9)		1,199,404
Bonds payable, net (Notes 6 and 7)		15,975,000
<b>Total current liabilities</b>		<u>18,830,872</u>

Noncurrent liabilities:

Project acquisition promissory notes (Note 5)		4,435,076
Bonds payable, net (Notes 6 and 7)		91,732,821
<b>Total noncurrent liabilities</b>		<u>96,167,897</u>

<b>Total liabilities</b>	<b>\$</b>	<u>114,998,769</u>
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**NET ASSETS**

Restricted (Note 8)		100,000
Unrestricted		193,366

<b>Total net assets</b>	<b>\$</b>	<u>293,366</u>
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The accompanying notes are an integral part of these financial statements.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**(A Component Unit of the State of Rhode Island)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

<b>Operating revenues</b>	
Interest on loan to State of Rhode Island	\$ 47,337
Rental income	6,190,603
Recovery of debt issuance cost	17,268
Recovery of administrative costs	53,393
<b>Total operating revenues</b>	<u>6,308,601</u>
<b>Operating expenses</b>	
Personal services	17,503
Trustee fees	16,919
Professional services	14,737
Amortization of debt issuance costs	342,753
<b>Total operating expenses</b>	<u>391,912</u>
<b>Operating income</b>	<u>5,916,689</u>
<b>Nonoperating revenue (expenses)</b>	
Investment income:	
Interest income	892,325
Change in fair value of investments	(471,433)
Interest expense	(6,509,575)
Liquidity facility financing fee	(121,660)
Arbitrage rebate (Note 9)	(1,199,404)
Transfer to State of Rhode Island	(8,046)
Other expenses	(5,273)
<b>Total nonoperating revenue (expenses)</b>	<u>(7,423,066)</u>
<b>Change in net assets before special item</b>	(1,506,377)
<b>Special item, gain on termination of investment agreement (Note 9)</b>	<u>1,509,506</u>
<b>Change in net assets</b>	3,129
<b>Net assets, July 1, 2002</b>	<u>290,237</u>
<b>Net assets, June 30, 2003</b>	<u>\$ 293,366</u>

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

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**(A Component Unit of the State of Rhode Island)**

**STATEMENT OF CASH FLOWS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

**Cash flows from operating activities:**

Cash received for:		
Administrative costs	\$	49,245
Trustee fees		4,150
Rents		21,240,744
Cash paid for:		
Personal services		(17,390)
Trustee fees		(16,919)
Other goods and services		(19,086)
<b>Net cash provided by operating activities</b>		<u>21,240,744</u>

**Cash flows from noncapital financing activities:**

Principal paid on debt		(665,000)
Interest paid on debt		(47,215)
Recovery of bond issuance costs		17,268
Recovery of bond interest		47,215
Collection of loan		647,732
Operating transfers (net)		321,647
Transfers to State of Rhode Island		(8,046)
<b>Net cash provided by noncapital financing activities</b>		<u>313,601</u>

**Cash flows from capital and related financing activities:**

Cash received from sale of bonds		72,305,566
Cash paid to refunding escrow agent		(88,043,549)
Cash paid for debt issuance costs		(186,839)
Principal paid on debt		(14,450,000)
Interest paid on debt		(6,790,744)
<b>Net cash used for capital and related financing activities</b>		<u>(37,165,566)</u>

**Cash flows from investing activities:**

Interest received		1,293,981
Cash received on sale/maturity of investments		16,056,507
Investment fees		(1,817)
Liquidity facility financing fee		(121,660)
<b>Net cash provided by investing activities</b>		<u>17,227,011</u>

**Net increase in cash and cash equivalents** 1,615,790

**Cash and cash equivalents, July 1, 2002** 662,225

**Cash and cash equivalents, June 30, 2003** \$ 2,278,015

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income \$ 5,916,689

**Adjustments:**

Amortization of debt issuance costs		325,485
Interest on loan classified as operating revenue		(47,337)
Principal paid on debt included in cash flows from capital and related financing activities		14,450,000
Changes in assets and liabilities:		
Rentals due		600,141
Accounts payable		(4,234)
<b>Total adjustments</b>		<u>15,324,055</u>

**Net cash provided by operating activities** \$ 21,240,744

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

# **RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

## **NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The Rhode Island Refunding Bond Authority (Authority) was created and established as a public corporation by Chapter 35-8.1 of the General Laws of the State of Rhode Island. The Authority is authorized to issue bonds, upon the request of the governor and a finding of a financial benefit to the State, for the purpose of loaning money to the State to provide funds to pay, redeem or retire all or a part of the State's General Obligation Bonds dated May 1, 1984 and June 28, 1985.

Chapter 35-8.1 of the General Laws was amended to merge the Rhode Island Public Buildings Authority (RIPBA) into the Authority. On July 1, 1997, the RIPBA ceased to exist as an entity and its functions, powers, rights, duties and liabilities, property and resources, including the bonded indebtedness of the RIPBA were transferred to the Authority. The RIPBA's purpose was to finance the acquisition, construction, and improvement of public facilities and equipment through the issuance of revenue bonds financed solely from revenues derived under lease agreements with various governmental entities.

The Authority is a component unit of the State of Rhode Island and Providence Plantations for financial reporting purposes. The financial statements of the Authority are blended into the State of Rhode Island's financial statements.

#### **Basis of Presentation**

The accounts of the Authority are maintained in accordance with the principles of "Fund Accounting". Funds have been established as required by various bond resolutions or for certain operating purposes to observe limitations and restrictions placed on the use of resources available to the Authority. For financial reporting purposes, the various accounts of the Authority have been combined and inter-fund transactions have been eliminated.

Five funds are used to account for the operations of the Authority as described below:

**General Fund** - accounts for the administrative operating activities of the former Rhode Island Public Buildings Authority.

**Construction Fund** - accounts for the receipt and disbursement of revenue bond and note proceeds for construction and equipment acquisition which were issued by the former Rhode Island Public Buildings Authority. This fund was closed in fiscal year 2003 as all related projects had been completed. All monies remaining in this fund (\$21,457) were transferred to the bond fund.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2003

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Debt Service Reserve Fund** - accounts for the debt service reserve requirement related to certain bonds issued by the former Rhode Island Public Buildings Authority. As described in Note 7, the related bonds were defeased in fiscal 2003 and consequently the Authority had no requirement to maintain assets in a debt service reserve fund at June 30, 2003.

**Bond Fund** - accounts for revenue bonds and notes payable issued by the former Rhode Island Public Buildings Authority, rentals due from the State, the receipt of rental income, and the payment and amortization of debt issuance costs. The Bond Fund is a consolidation of funds required by various bond resolutions (Debt Service Fund, Revenue Fund, Redemption Fund, Note Repayment Fund, and Cost of Issuance Fund).

**Refunding Bond Fund** - accounts for the activity related to the Rhode Island Refunding Bond Authority's 1988 Series A, General Revenue Bonds dated February 15, 1988 and the related loan to the State. These bonds were redeemed in fiscal 2003 and, as a result, the related accounts were closed and there were no net assets as of June 30, 2003.

**Basis of Accounting**

The financial statements of the Authority have been prepared on the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for governmental, proprietary fund type activities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

**Use of Estimates**

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

**Income Taxes**

The Authority is exempt from Federal and State income taxes.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2003

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment Income**

Investment income has two components, interest income and change in fair value of investments. Interest earned on investments is recognized as income in the fund in which the investments are held. In accordance with each bond series or resolution, this interest may periodically be transferred to the Bond Fund and be used to reduce future rental payments from the State of Rhode Island.

The change in fair value of investments is determined by comparing the fair value of investments at the beginning of the fiscal year to that at the end of the fiscal year. This calculation also takes into consideration purchases and sales of investments. In accordance with current accounting standards, no realized gains or losses are recognized on sales of those investments recorded at fair value in the financial statements.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Debt Issuance Costs**

Debt issuance costs represent the costs of issuance of the revenue bonds and are reflected as an asset on the financial statements. These costs are amortized on a straight-line basis over the life of the bonds. Debt issuance costs associated with defeased bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**Bond Discounts and Premiums**

Bond discounts and premiums on revenue bonds are recorded as an offset/addition, respectively, to the outstanding revenue bonds payable. Bond discounts and premiums are amortized using the effective interest method over the life of the bonds. Bond discounts and premiums associated with defeased bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**Investments**

Investments are recorded in the financial statements at fair value, except that, in accordance with GASB Statement No. 31, the Authority reports money market investments, having a remaining maturity of one year or less at time of purchase at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

## **RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

### **NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

#### **2. DUE FROM STATE**

Due from the State includes any unreimbursed administrative expenses of the Authority.

#### **3. RENTALS DUE**

Rentals due represent amounts payable by the State pursuant to agreements for projects leased by the former Rhode Island Public Buildings Authority. Annual rental payments made by the State to the Authority are equal to the interest and annual principal payment on bonds and notes issued by the Authority (RIPBA), amortization of bond issuance costs and certain administrative expenses of the Authority.

The Authority uses a method similar to the financing method to account for rentals from long-term lease agreements. Under this method, the aggregate amount of rentals due for the repayment of the bond and note principal plus current accrued interest are recorded as rentals due for payment of principal and interest on bonds and notes.

The obligation of the State to make payments to the Authority under various lease agreements is subject to and dependent upon appropriations being made from time to time by the General Assembly of the State for such purpose.

#### **4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

Permitted investments of the Authority are defined by the various bond resolutions governing the Authority's outstanding bonded indebtedness. In general, the Authority may invest in direct obligations of the United States of America, obligations of federal agencies which are backed by the full faith and credit of the United States of America, obligations of certain federal agencies which are not fully guaranteed by the United States of America, dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks bearing the highest rating by national rating agencies, commercial paper bearing the highest rating by national rating agencies, and highly rated money market funds and municipal or state obligations. Other investments may be permissible with permission of the insurer of the Authority's bonds.

The bank and book balance of the Authority's cash at June 30, 2003 totaled \$168, all of which was insured by the Federal Depository Insurance Corporation.

## **RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

### **NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

#### **4. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

The Authority's investments at June 30, 2003 consisted entirely of money market mutual funds backed by short-term U.S. Treasury obligations or U.S. Agency obligations and repurchase agreements that are collateralized by U.S. Treasury securities. These types of investments are not classified as to credit risk pursuant to Governmental Standards Board Statement No. 3. The carrying amount and fair value of these cash equivalent investments at June 30, 2003 were \$2,277,847.

Of the total cash and cash equivalents at June 30, 2003, \$1,984,907 is restricted to pay debt service and the arbitrage rebate on the Authority's bonds.

#### **5. PROJECT ACQUISITION PROMISSORY NOTES**

Project acquisition promissory (PAP) notes represent the Authority's obligation to the State for certain land and improvements acquired for projects financed by the Authority. Such notes require semi-annual interest payments but are payable as to principal only when the State shall have exercised its right to purchase a specific project under the lease agreement(s). The payment of principal and interest on each PAP note is payable solely from the rent paid by the State for leased projects. The Authority has covenanted to credit to the State any and all rent designated as Project Acquisition Promissory Note Payments accruing to the Authority under the agreements.

#### **6. BONDS PAYABLE**

##### **Revenue Bonds – 1988 Series A (Rhode Island Refunding Bond Authority)**

In February 1988, the Authority issued \$20,640,000 in General Obligation Revenue Bonds. These bonds which had interest rates ranging from 6.1% to 7.1% matured at various dates through 2003. The proceeds of the 1988 Series A Bonds were provided to the State of Rhode Island. The Authority's 1988 General Revenue Bonds were guaranteed as to principal and interest by the Municipal Bond Investors Assurance Corporation.

The amount borrowed by the State of Rhode Island was deposited in an Escrow Deposit Fund (irrevocable trust) to be used to pay, redeem, or retire the State of Rhode Island's General Obligation Bonds dated May 1, 1984. These bonds were redeemed on May 1, 1989. Under the Loan and Trust Agreement the State is obligated to pay the Authority amounts equal to the debt service on the 1988 General Obligation Revenue Bonds and the expenses of the Authority.

These bonds were redeemed during the fiscal year ended June 30, 2003.

**RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

**6. BONDS PAYABLE (continued)**

**Revenue Bonds - 1993 Series A (Rhode Island Public Buildings Authority)**

In July 1993, the Authority (RIPBA) issued \$161,880,000 in State Public Projects Revenue Bonds, known as the 1993 Series A Bonds. These bonds, which had interest rates ranging from 3.0 % to 5.25% and had original maturity dates through 2010, were secured by lease rentals payable by the State of Rhode Island pursuant to lease agreements.

The proceeds of the 1993 Series A issue were used to effect the complete or partial refunding of six of the Rhode Island Public Buildings Authority's State Public Projects Revenue Bonds.

As more fully described in Note 7, these bonds were defeased by the Authority's State Public Projects Revenue Bonds, 2003 Series A.

**Revenue Bonds - 1998 Series A (Rhode Island Refunding Bond Authority)**

In June 1998, the Authority issued \$39,875,000 in State Public Projects Revenue Bonds, known as the 1998 Series A Bonds. These bonds, which have interest rates ranging from 4.25% to 5.25% and mature at various dates through 2010, are secured by lease rentals payable by the State of Rhode Island pursuant to lease agreements.

Monies from the proceeds of the 1998 Series A issue and related debt service reserve funds were used to effect the complete refunding of four of the former Public Building Authority's State Public Projects Revenue Bonds.

Principal amount outstanding at June 30, 2003 - \$33,080,000.

**Revenue Bonds – 2003 Series A (Rhode Island Refunding Bond Authority)**

In May 2003, the Authority issued \$67,625,000 in State Public Projects Revenue Bonds dated April 1, 2003 which are known as the 2003 Series A Bonds. These bonds, which have interest rates ranging from 3.0% to 5.0% and mature at various dates through 2008, are secured by lease rentals payable by the State of Rhode Island pursuant to lease agreements.

Monies from the proceeds of the 2003 Series A issue were used to defease the 1993 Series A revenue bonds (as more fully described in Note 7).

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2003

**6. BONDS PAYABLE (continued)**

Debt service requirements from July 1, 2003 to maturity are summarized below for each issue outstanding as of June 30, 2003:

<u>Fiscal</u> <u>Year</u>	<b>Revenue Bonds – 1998 Series A</b>		<b>Revenue Bonds – 2003 Series A</b>		<b>Total – All issues</b>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 770,000	\$ 1,676,661	\$ 15,205,000	\$ 2,738,775	\$ 15,975,000	\$ 4,415,436
2005	1,480,000	1,642,781	8,635,000	2,338,000	10,115,000	3,980,781
2006	6,645,000	1,576,181	7,650,000	1,986,025	14,295,000	3,562,206
2007	6,975,000	1,243,931	10,635,000	1,540,875	17,610,000	2,784,806
2008	1,335,000	895,181	17,140,000	846,500	18,475,000	1,741,681
2009	9,835,000	833,438	8,360,000	209,000	18,195,000	1,042,438
2010	6,040,000	317,100			6,040,000	317,100
<b>Total</b>	<u>\$ 33,080,000</u>	<u>\$ 8,185,273</u>	<u>\$ 67,625,000</u>	<u>\$ 9,659,175</u>	<u>\$ 100,705,000</u>	<u>\$ 17,844,448</u>

**Bonds Payable, Net**

Total bond principal	\$100,705,000
Add: bond premium	4,912,886
deferred amount on refunding	2,565,332
Less: bond discount	(475,397)
Bonds payable, net	<u>\$107,707,821</u>

**7. BOND DEFEASANCE**

On May 1, 2003, the Authority issued \$67,625,000 in revenue bonds dated April 1, 2003 with interest rates ranging from 3.0% to 5.0% as part of an advance refunding of \$84,910,000 of outstanding 1993 Series A bonds with interest rates ranging from 5.0% to 5.25%. The net proceeds of \$71.7 million (including issuance premium and after payment of \$700 thousand for underwriting fees, insurance and other costs of issuance) plus an additional \$16.4 million available from the Debt Service Reserve Fund established for the 1993 Series A Bonds were used to purchase U.S. Government Securities.

These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the 1993 Series A bonds including a call premium of 102%. As a result, the 1993 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

**RHODE ISLAND REFUNDING BOND AUTHORITY**

(A Component Unit of the State of Rhode Island)

**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

**7. BOND DEFEASANCE (continued)**

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,610,613. This difference, reported in the accompanying financial statements as an addition to bonds payable, is being charged to operations through fiscal year 2008 using the effective interest method.

The Authority completed the advance refunding to reduce its total debt service payments by \$2,811,239 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,862,523.

On June 5, 2003 the 1993 Series A Bonds were called and redeemed with the proceeds of the securities placed in the irrevocable trust.

**8. NET ASSETS**

**Restricted**

This balance reflects amounts reserved to cover future contingencies.

**9. SPECIAL ITEM, GAIN ON TERMINATION OF INVESTMENT AGREEMENT**

As described in Note 7, funds available in the Authority's Debt Service Reserve Fund were used to defease the Authority's 1993 Series A Bonds. The Authority had previously entered into an agreement with a financial institution to restructure its Debt Service Reserve Fund assets. The agreement provided for (1) an "upfront" payment to the Authority, (2) a liquidity facility, and (3) the purchase of specific investments at the maturity of original Debt Service Reserve Fund investments. This agreement was terminated by mutual consent in connection with the refunding transaction described in Note 7. As a result of the early termination of the agreement, the Authority received \$1,250,497 in satisfaction and release of the agreement. The Authority also recognized investment income of \$259,009 which represented the balance of the "upfront" payment which had been previously deferred. Early termination of the investment agreement also created an arbitrage rebate liability on the 1993 Series A Bonds in the amount of \$1,199,404.

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**COMBINING STATEMENT OF NET ASSETS**  
**June 30, 2003**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Fund</u>	<u>Refunding Bond Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 293,108	\$	\$	\$ 1,984,907	\$	\$ 2,278,015
Due from State	1,053					1,053
Debt issuance costs				2,244,785		2,244,785
Rentals due				110,768,282		110,768,282
<b>Total assets</b>	<b>\$ 294,161</b>	<b>\$</b>	<b>\$</b>	<b>\$ 114,997,974</b>	<b>\$</b>	<b>\$ 115,292,135</b>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 795	\$	\$	\$ 12,000	\$	\$ 12,795
Arbitrage rebate payable				1,199,404		1,199,404
Interest payable				1,643,673		1,643,673
Project acquisition promissory notes				4,435,076		4,435,076
Bonds payable (net)				107,707,821		107,707,821
<b>Total liabilities</b>	<b>795</b>	<b>\$</b>	<b>\$</b>	<b>114,997,974</b>	<b>\$</b>	<b>114,998,769</b>
<b><u>NET ASSETS</u></b>						
Restricted	100,000					100,000
Unrestricted	193,366					193,366
<b>Total net assets</b>	<b>\$ 293,366</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 293,366</b>

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

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Fund</u>	<u>Refunding Bond Fund</u>	<u>Total</u>
<b>Operating revenues</b>						
Interest on loan to State of Rhode Island	\$	\$	\$	\$	\$ 47,337	\$ 47,337
Rental income				6,190,603		6,190,603
Recovery of debt issuance cost					17,268	17,268
Recovery of administrative costs	49,243				4,150	53,393
<b>Total operating revenues</b>	<u>49,243</u>			<u>6,190,603</u>	<u>68,755</u>	<u>6,308,601</u>
<b>Operating expenses</b>						
Personal services	17,503					17,503
Trustee fees	12,769				4,150	16,919
Professional services	14,737					14,737
Amortization of debt issuance costs				325,485	17,268	342,753
<b>Total operating expenses</b>	<u>45,009</u>			<u>325,485</u>	<u>21,418</u>	<u>391,912</u>
<b>Operating income</b>	4,234			5,865,118	47,337	5,916,689
<b>Nonoperating revenue (expenses)</b>						
Investment income:						
Interest income	3,129	59	884,132	4,925	80	892,325
Change in fair value of investments			(471,433)			(471,433)
Transfers in (out)		(37)	(1,800,397)	1,800,434		(6,509,575)
Interest expense				(6,470,226)	(39,349)	(6,509,575)
Arbitrage rebate				(1,199,404)		(1,199,404)
Liquidity facility financing fee			(121,660)			(121,660)
Transfer to State of Rhode Island					(8,046)	(8,046)
Other expenses	(4,234)	(22)	(148)	(847)	(22)	(5,273)
<b>Total nonoperating revenue (expenses)</b>	<u>(1,105)</u>		<u>(1,509,506)</u>	<u>(5,865,118)</u>	<u>(47,337)</u>	<u>(7,423,066)</u>
<b>Change in net assets before special item</b>	3,129		(1,509,506)			(1,506,377)
<b>Special item, gain on termination of investment agreement (Note 9)</b>			1,509,506			1,509,506
<b>Total net assets, July 1, 2002</b>	290,237					290,237
<b>Total net assets, June 30, 2003</b>	<u>\$ 293,366</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 293,366</u>

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

**RHODE ISLAND REFUNDING BOND AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Fund</u>	<u>Refunding Bond Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>						
Cash received for:						
Administrative costs	\$ 49,245	\$	\$	\$	\$ 4,150	\$ 49,245
Trustee fees					4,150	4,150
Rents				21,240,744		21,240,744
Cash paid for:						
Personal services	(17,390)					(17,390)
Trustee fees	(12,769)				(4,150)	(16,919)
Other goods and services	(19,086)					(19,086)
<b>Net cash provided by operating activities</b>				21,240,744		21,240,744
<b>Cash flows from noncapital financing activities:</b>						
Principal paid on debt					(665,000)	(665,000)
Interest paid on debt					(47,215)	(47,215)
Recovery of bond issuance costs					17,268	17,268
Recovery of bond interest					47,215	47,215
Collection of loan					647,732	647,732
Operating transfers, (net)	321	(21,457)	(17,230,515)	17,573,298	(8,046)	313,601
<b>Net cash provided by (used for) noncapital financing activities</b>	321	(21,457)	(17,230,515)	17,573,298	(8,046)	313,601
<b>Cash flows from capital and related financing activities:</b>						
Cash received from sale of bonds						
Cash paid to refunding escrow agent				72,305,566		72,305,566
Cash paid for debt issuance costs				(88,043,549)		(88,043,549)
Principal paid on debt				(186,839)		(186,839)
Interest paid on debt				(14,450,000)		(14,450,000)
<b>Net cash used for capital and related financing activities</b>				(6,790,744)		(6,790,744)
<b>Cash flows from investing activities:</b>						
Interest received	3,129	59	1,285,790	4,925	78	1,293,981
Cash received from maturity of investments			16,056,507			16,056,507
Investment fees	(779)	(22)	(147)	(847)	(22)	(1,817)
Liquidity facility financing fee			(121,660)			(121,660)
<b>Net cash provided by investing activities</b>	2,350	37	17,220,490	4,078	56	17,227,011
<b>Net increase (decrease) in cash and cash equivalents</b>	2,671	(21,420)	(10,025)	1,652,554	(7,990)	1,615,790
<b>Cash and cash equivalents, July 1, 2002</b>	290,437	21,420	10,025	332,353	7,990	662,225
<b>Cash and cash equivalents, June 30, 2003</b>	<u>\$ 293,108</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,984,907</u>	<u>\$</u>	<u>\$ 2,278,015</u>

**RHODE ISLAND REFUNDING BOND AUTHORITY  
COMBINING STATEMENT OF CASH FLOWS  
FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Fund</u>	<u>Refunding Bond Fund</u>	<u>Total</u>
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>						
Operating income	\$ 4,234	\$	\$	\$ 5,865,118	\$ 47,337	\$ 5,916,689
<b>Adjustments:</b>						
Amortization of debt issuance costs				325,485		325,485
Interest on loan classified as operating revenue					(47,337)	(47,337)
Principal paid on debt included in cash flows from capital and related financing activities				14,450,000		14,450,000
Changes in assets and liabilities:						
Rentals due				600,141		600,141
Accounts payable	(4,234)					(4,234)
<b>Total adjustments</b>	<u>(4,234)</u>			<u>15,375,626</u>	<u>(47,337)</u>	<u>15,324,055</u>
<b>Net cash provided by operating activities</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 21,240,744</u>	<u>\$</u>	<u>\$ 21,240,744</u>

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



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

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

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF DIRECTORS OF THE RHODE ISLAND REFUNDING BOND AUTHORITY:

We have audited the financial statements of the Rhode Island Refunding Bond Authority, a component unit of the State of Rhode Island, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rhode Island Refunding Bond Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rhode Island Refunding Bond Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
BOARD OF DIRECTORS OF THE RHODE ISLAND REFUNDING BOND AUTHORITY:  
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being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and the Joint Committee on Legislative Services, General Assembly, State of Rhode Island and Providence Plantations and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Ernest A. Almonte".

Ernest A. Almonte, CPA, CFE  
Auditor General

September 26, 2003