
STATE OF RHODE ISLAND
REFUNDING BOND AUTHORITY

(A Component Unit of the
State of Rhode Island)

YEAR ENDED JUNE 30, 2002

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

September 30, 2002

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator William V. Irons
Senator Dennis L. Algieri
Representative Gerard M. Martineau
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, 2002 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, 2002

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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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, 2002, 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, 2002, 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 Notes 2 and 3, collection of amounts due from the State and rentals due are 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

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2002 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, 2002

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, 2002. 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.

Financial Highlights for the Year Ending June 30, 2002

- ❑ Bonds payable at June 30, 2002 decreased \$13,987,638 (10%) when compared to June 30, 2001.
- ❑ Rentals due and the amount due from the State at June 30, 2002 decreased \$14,306,394 (10.7%) when compared to June 30, 2001.

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, 2002</u>	<u>June 30, 2001</u>
Assets:		
Current assets		
Cash, cash equivalents and investments	\$ 290,437	\$ 284,559
Amounts due from the State	18,135,230	17,603,554
Noncurrent assets		
Restricted cash and cash equivalents	371,788	368,017
Restricted investments	17,007,521	16,827,286
Amounts due from the State	101,257,240	116,095,310
Debt issuance costs	<u>2,063,550</u>	<u>2,362,585</u>
	\$139,125,766	\$153,541,311
Liabilities:		
Current:		
Accounts payable	5,029	62,682
Interest payable	\$ 3,040,659	3,323,554
Bonds payable	15,115,000	14,280,000
Long-Term:		
Project acquisition promissory notes	4,435,076	4,435,076
Bonds payable	115,902,833	130,725,471
Deferred revenue	<u>336,932</u>	<u>430,440</u>
	<u>\$138,835,529</u>	<u>\$153,257,223</u>
Net Assets:		
Restricted	\$ 100,000	\$ 100,000
Unrestricted	<u>190,237</u>	<u>184,088</u>
	<u>\$ 290,237</u>	<u>\$ 284,088</u>

The Authority's cash equivalents and investments consist primarily of amounts held in debt service reserve funds which are restricted for the repayment of debt as required by the various bond resolutions. Amounts due from the State approximate the Authority's bonds and notes payable less amounts available in debt service reserve funds of the Authority. 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>		
	<u>Year Ended June 30, 2002</u>	<u>Year Ended June 30, 2001</u>
Rental income	\$ 6,858,561	\$ 7,498,758
Other operating revenue	171,549	208,766
Operating expenses	<u>(374,216)</u>	<u>(366,300)</u>
Operating income	6,655,894	7,341,224
Other income	1,517,465	1,974,697
Interest expense	(8,041,916)	(8,721,358)
Other expenses	<u>(125,294)</u>	<u>(580,443)</u>
Change in net assets	6,149	14,120
Net assets, beginning of year	<u>284,088</u>	<u>269,968</u>
Net assets, end of year	<u>\$ 290,237</u>	<u>\$ 284,088</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

During fiscal 2003, the Authority will make the final debt service payment on one series of its revenue bonds the proceeds of which were used to refund certain general obligation bonds of the State. Debt service payments on the Authority's other bonds 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

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

STATEMENT OF NET ASSETS

June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents (Note 4)	\$	290,437
Due from State (Note 2)		652,437
Rentals due (Note 3)		17,482,793
Total current assets		18,425,667

Noncurrent assets:

Restricted cash and cash equivalents		371,788
Restricted investments (Note 4)		17,007,521
Rentals due (Note 3)		101,257,240
Debt issuance costs		2,063,550
Total noncurrent assets		120,700,099

Total assets	\$	139,125,766
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LIABILITIES

Current liabilities:

Accounts payable	\$	5,029
Interest payable		3,040,659
Bonds payable (Note 6)		15,115,000
Total current liabilities		18,160,688

Noncurrent liabilities:

Project acquisition promissory notes (Note 5)		4,435,076
Bonds payable (Note 6)		115,902,833
Deferred revenue		336,932
Total noncurrent liabilities		120,674,841

Total liabilities	\$	138,835,529
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NET ASSETS

Restricted (note 7)		100,000
Unrestricted		190,237
		290,237

Total net assets	\$	290,237
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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, 2002

Operating revenues	
Interest on loan to State of Rhode Island	\$ 86,007
Rental Income	6,858,561
Recovery of debt issuance cost	20,728
Recovery of administrative costs	64,814
Total operating revenues	<u>7,030,110</u>
Operating expenses	
Personal services	18,425
Trustee fees	18,265
Professional services	26,591
Amortization of debt issuance costs	310,552
Miscellaneous	383
Total operating expenses	<u>374,216</u>
Operating income	<u>6,655,894</u>
Nonoperating revenue (expenses)	
Investment income:	
Interest income	1,070,513
Change in fair value of investments	182,239
Interest expense	(8,041,916)
Liquidity facility financing fee (note 9)	(122,660)
Increase in rentals due (note 3)	211,834
Other income	52,880
Other expenses	(2,635)
Total nonoperating revenue (expenses)	<u>(6,649,745)</u>
Change in net assets	6,149
Total net assets, July 1, 2001	<u>284,088</u>
Total net assets, June 30, 2002	<u>\$ 290,237</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, 2002

Cash flows from operating activities:

Cash received for:		
Administrative costs	\$	59,984
Trustee fees		4,150
Rents		19,394,575
Other		52,879
Cash paid for:		
Personal services		(18,643)
Trustee fees		(22,415)
Other goods and services		(23,076)
Net cash provided by operating activities		<u>19,447,454</u>

Cash flows from noncapital financing activities:

Principal paid on debt		(665,000)
Interest paid on debt		(93,765)
Recovery of bond issuance costs		20,728
Recovery of bond interest		93,765
Collection of loan		644,272
Net cash provided by (used for) noncapital financing activities		<u>-</u>

Cash flows from capital and related financing activities:

Principal paid on debt		(13,615,000)
Interest paid on debt		(6,615,322)
Net cash used for capital and related financing activities		<u>(20,230,322)</u>

Cash flows from investing activities:

Interest received		978,980
Investment fees		(2,502)
Liquidity facility financing fee		(183,961)
Net cash provided by investing activities		<u>792,517</u>

Net increase in cash and cash equivalents 9,649

Cash and cash equivalents, July 1, 2001 652,576

Cash and cash equivalents, June 30, 2002 \$ 662,225

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

Operating income \$ 6,655,894

Adjustments:

Interest expense	(86,007)
Amortization of debt issuance costs	289,824
Changes in assets and liabilities	
Due from State	(4,829)
Rentals due	12,588,893
Accounts payable	3,679
Total adjustments	<u>12,791,560</u>

Net cash provided by operating activities \$ 19,447,454

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, 2002

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.

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

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.

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.

Basis of Accounting

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

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, 2002

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, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of Governmental Accounting Standards Board Pronouncements

The Authority adopted the provision of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement No. 34 establishes new financial reporting requirements for all state and local governments including component units. For the Authority, adoption of this pronouncement required inclusion of management’s discussion and analysis to provide an overview of the Authority’s financial activities and also required changes to the format and terminology used in the financial statements.

2. DUE FROM STATE

Due from the State represents the balance of the State of Rhode Island’s obligation to the Authority under a Loan and Trust Agreement between the Authority, the State of Rhode Island and the Escrow Trustee. The Loan and Trust Agreement provides the mechanism to pay, redeem, or retire certain of the State of Rhode Island’s General Obligation Bonds dated May 1, 1984.

The Authority loaned \$19,992,299 to the State of Rhode Island from the proceeds of its 1988 Series A General Revenue Bonds (\$20,640,000) dated February 15, 1988. 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 Revenue Bonds and the expenses of the Authority.

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

The obligation of the State to make payments under the Loan and Trust Agreement is subject to and dependent upon appropriations being made from time to time by the General Assembly of the State for such purpose.

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.

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

3. RENTALS DUE (continued)

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 and the current amortization of the bond issuance costs, bond discounts and bond premium are recorded as rentals due for payment of principal and interest on bonds and notes. Aggregate rentals due are net of amounts available in debt service reserve funds of the Authority. Accordingly, income received and changes in the fair value of investments held within debt service reserve funds can increase or decrease the aggregate amount of rentals due.

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 include the following:

- (a) Direct obligations of or obligations guaranteed by the United States of America;
- (b) Obligations the payment of the principal of and interest on which, are unconditionally guaranteed by the United States of America;
- (c) Bonds, debentures, participation certificates, notes or other evidence of indebtedness issued by any agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof the bonds, debentures, participation certificates, notes or other evidence of indebtedness of which are unconditionally guaranteed by the United States of America;
- (d) Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- (e) Direct and general obligations of any state within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the Resolution, such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency.

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

The Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at June 30, 2002.

Category 1 includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 includes investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department, but not in the Authority's name.

<u>Description</u>	<u>Category 1</u>	<u>Unclassified as to risk</u>	<u>Fair Value</u>
<u>Unrestricted:</u>			
Money Market Funds		\$ 290,437	\$ 290,437
<u>Restricted:</u>			
Money Market Funds		371,788	371,788
United States Government Agency Obligations	\$17,007,521		\$ 17,007,521
Total	<u>17,007,521</u>	<u>\$ 662,225</u>	<u>\$ 17,669,746</u>
Less: amounts classified as cash equivalents			<u>(662,225)</u>
Investments			<u>\$17,007,521</u>

Restricted cash equivalents and investments represent Authority assets held in debt service reserve funds and other amounts restricted for payment of debt service on the Authority's obligations.

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.

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

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 have interest rates ranging from 6.1% to 7.1% mature 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 are 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.

Principal amount outstanding at June 30, 2002 - \$665,000.

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 have interest rates ranging from 3.0 percent to 5.25 percent and mature at various dates through 2010, are 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.

Principal amount outstanding at June 30, 2002 - \$98,770,000.

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, 2002 - \$33,670,000.

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

6. BONDS PAYABLE (continued)

Debt service requirements to maturity are summarized for each issue and in total as follows:

<u>Year</u>	<u>Revenue Bonds – 1988 Series A (RIRBA)</u>		<u>Revenue Bonds – 1993 Series A (RIPBA)</u>		<u>Revenue Bonds – 1998 Series A (RIRBA)</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	665,000	47,215	13,860,000	5,088,712	590,000	1,702,030
2004			14,145,000	4,395,712	770,000	1,676,660
2005			14,440,000	3,688,462	1,480,000	1,642,782
2006			10,080,000	2,952,022	6,645,000	1,576,180
2007			10,605,000	2,427,862	6,975,000	1,243,930
2008			16,975,000	1,871,100	1,335,000	895,182
2009			8,445,000	979,912	9,835,000	833,438
2010			10,220,000	536,550	6,040,000	317,104
Total	<u>665,000</u>	<u>47,215</u>	<u>98,770,000</u>	<u>21,940,332</u>	<u>33,670,000</u>	<u>9,887,306</u>

Total – All Issues

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	15,115,000	6,837,957	21,952,957
2004	14,915,000	6,072,372	20,987,372
2005	15,920,000	5,331,244	21,251,244
2006	16,725,000	4,528,202	21,253,202
2007	17,580,000	3,671,792	21,251,792
2008	18,310,000	2,766,282	21,076,282
2009	18,280,000	1,813,350	20,093,350
2010	16,260,000	853,654	17,113,654
Total	<u>\$133,105,000</u>	<u>\$31,874,853</u>	<u>\$164,979,853</u>

Total bond principal	\$133,105,000
Add bond premium	638,826
Less bond discount	(578,663)
Less deferred bond discount	<u>(2,147,330)</u>
Bonds payable, net	<u>\$131,017,833</u>

RHODE ISLAND REFUNDING BOND AUTHORITY

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2002

7. NET ASSETS

Restricted

This balance reflects amounts reserved to cover future contingencies.

8. INVESTMENT RESTRUCTURING

On June 29, 1995, the Authority entered into an agreement to restructure the Authority's Debt Service Reserve Fund for the State Public Projects Revenue Bonds, 1993 Series A. The Agreement provided for the following provisions (among others): (a) upfront payment of \$960,000 to the Authority on June 30, 1995 and (b) liquidity facility for existing Reserve Fund assets and future Reserve Fund assets of the Authority.

In exchange for the upfront payment and the liquidity facility, the Authority has agreed to transfer to National Westminster Bank, a portion of the interest the Authority receives on the existing \$15,930,000 Federal National Mortgage Association (FNMA) bonds currently in the 1993 Series A Debt Service Reserve Fund. The portion of interest transferred is the amount of interest on the FNMA bonds in excess of the arbitrage yield on the Authority's 1993 Series A Bonds (5.28%). At the maturity of the FNMA bonds in 2003, National Westminster Bank has agreed to sell to the Authority a series of Resolution Funding Corporation (REFCORP) STRIPS at a price that will produce a yield to the Authority of 5.28%. These REFCORP STRIPS will mature every six months until the final maturity of the 1993 Series A Bonds.

RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINING STATEMENT OF NET ASSETS
June 30, 2002

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Bond Fund</u>	<u>Refunding Bond Fund</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>							
Cash and cash equivalents	\$ 290,437	\$ 21,420	\$ 10,025	\$ 332,353	\$ 7,990	\$	\$ 662,225
Investments			17,007,521				17,007,521
Due from other funds				16,702,034		(16,702,034)	
Due from State	4,829				647,608		652,437
Debt issuance costs				2,046,282	17,268		2,063,550
Rentals due				118,740,033			118,740,033
Total assets	<u>\$ 295,266</u>	<u>\$ 21,420</u>	<u>\$ 17,017,546</u>	<u>\$ 137,820,702</u>	<u>\$ 672,866</u>	<u>\$ (16,702,034)</u>	<u>\$ 139,125,766</u>
<u>LIABILITIES</u>							
Due to other funds	\$	\$ 21,420	\$ 16,680,614	\$	\$	\$ (16,702,034)	\$
Accounts payable	5,029						5,029
Interest payable				3,032,793	7,866		3,040,659
Project acquisition promissory notes				4,435,076			4,435,076
Bonds payable				130,352,833	665,000		131,017,833
Deferred revenues			336,932				336,932
Total liabilities	<u>5,029</u>	<u>21,420</u>	<u>17,017,546</u>	<u>137,820,702</u>	<u>672,866</u>	<u>(16,702,034)</u>	<u>138,835,529</u>
<u>NET ASSETS</u>							
Restricted	100,000						100,000
Unrestricted	190,237						190,237
Total net assets	<u>\$ 290,237</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 290,237</u>

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, 2002

	<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>
Operating revenues						
Interest on loan to State of RI	\$	\$	\$	\$	\$ 86,007	\$ 86,007
Rental Income				6,858,561		6,858,561
Recovery of debt issuance cost					20,728	20,728
Recovery of administrative costs	60,664				4,150	64,814
Total operating revenues	<u>60,664</u>			<u>6,858,561</u>	<u>110,885</u>	<u>7,030,110</u>
Operating expenses						
Personal services	18,425					18,425
Trustee fees	14,115				4,150	18,265
Professional services	26,591					26,591
Amortization of debt issuance costs				289,824	20,728	310,552
Miscellaneous	383					383
Total operating expenses	<u>59,514</u>			<u>289,824</u>	<u>24,878</u>	<u>374,216</u>
Operating income/(loss)	1,150			6,568,737	86,007	6,655,894
Nonoperating revenue (expenses)						
Investment income:						
Interest income	6,149	453	1,057,772	5,970	169	1,070,513
Change in fair value of investments			182,239			182,239
Transfers in (out)		(368)	(1,117,242)	1,117,610		
Interest expense				(7,955,909)	(86,007)	(8,041,916)
Liquidity facility financing fee			(122,660)			(122,660)
Increase in rentals due				211,834		211,834
Other income				52,880		52,880
Other expenses	(1,150)	(85)	(109)	(1,122)	(169)	(2,635)
Total nonoperating revenue (expenses)	4,999			(6,568,737)	(86,007)	(6,649,745)
Change in net assets	6,149					6,149
Total net assets, July 1, 2001	284,088					284,088
Total net assets, June 30, 2002	<u>\$ 290,237</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 290,237</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, 2002**

	<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>
Cash flows from operating activities:						
Cash received for:						
Administrative costs	\$ 59,984	\$	\$	\$	\$ 4,150	\$ 59,984
Trustee fees					4,150	4,150
Rents				19,394,575		19,394,575
Other				52,879		52,879
Cash paid for:						
Personal services	(18,643)					(18,643)
Trustee fees	(18,265)				(4,150)	(22,415)
Other goods and services	(23,076)					(23,076)
Net cash provided by operating activities				19,447,454		19,447,454
Cash flows from noncapital financing activities:						
Principal paid on debt					(665,000)	(665,000)
Interest paid on debt					(93,765)	(93,765)
Recovery of bond issuance costs					20,728	20,728
Recovery of bond interest					93,765	93,765
Collection of loan					644,272	644,272
Operating transfers, (net)			(835,749)	835,749		
Net cash provided by (used for) noncapital financing activities			(835,749)	835,749		
Cash flows from capital and related financing activities:						
Principal paid on debt				(13,615,000)		(13,615,000)
Interest paid on debt				(6,615,322)		(6,615,322)
Net cash used for capital and related financing activities				(20,230,322)		(20,230,322)
Cash flows from investing activities:						
Interest received	7,028	518	964,424	6,817	193	978,980
Investment fees	(1,150)	(86)	(111)	(1,122)	(33)	(2,502)
Liquidity facility financing fee			(183,961)			(183,961)
Net cash provided by investing activities	5,878	432	780,352	5,695	160	792,517
Net increase (decrease) in cash and cash equivalents	5,878	432	(55,397)	58,576	160	9,649
Cash and cash equivalents, July 1, 2001	284,559	20,988	65,422	273,777	7,830	652,576
Cash and cash equivalents, June 30, 2002	\$ 290,437	\$ 21,420	\$ 10,025	\$ 332,353	\$ 7,990	\$ 662,225

**RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2002**

	<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>
Reconciliation of operating income(loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 1,150	\$	\$	\$ 6,568,737	\$ 86,007	\$ 6,655,894
Adjustments:						
Interest expense					(86,007)	(86,007)
Amortization of debt issuance costs				289,824		289,824
Changes in assets and liabilities						
Due from State	(4,829)					(4,829)
Rentals due				12,588,893		12,588,893
Accounts payable	3,679					3,679
Total adjustments	<u>(1,150)</u>			<u>12,878,717</u>	<u>(86,007)</u>	<u>12,791,560</u>
Net cash provided by (used for) operating activities	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 19,447,454</u>	<u>\$</u>	<u>\$ 19,447,454</u>

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



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AUDITOR GENERAL
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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, 2002, and have issued our report thereon dated September 26, 2002. 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

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

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relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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". The signature is written in black ink on a white background. There is a small yellow rectangular mark above the letter "t" in "Almonte".

Ernest A. Almonte, CPA, CFE
Auditor General

September 26, 2002