
STATE OF RHODE ISLAND
REFUNDING BOND AUTHORITY
FISCAL YEAR ENDED JUNE 30, 1999

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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March 6, 2000

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator Paul S. Kelly

Senator Dennis L. Algiere

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, 1999 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
Fiscal Year Ended June 30, 1999**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined balance sheet 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, 1999, and the related combined statements of revenues, expenses and changes in fund equity 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 1999 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.

The year 2000 supplementary information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied 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 the information and do not express an opinion on it. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.



Ernest A. Almonte, CPA, CFE
Auditor General

October 8, 1999

**RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINED BALANCE SHEET
JUNE 30, 1999**

	General Fund	Construction Fund	Debt Service Reserve Fund	Bond Fund	Refunding Bond Fund	Total (Memorandum Only)	Eliminations	Total (Memorandum Only)
ASSETS								
Cash and cash equivalents (Note 4)	\$ 257,403	\$ 18,985	\$ 655,609	\$ 30,358	\$ 7,094	\$ 969,449		\$ 969,449
investments (Note 4)			15,846,049		26	15,846,049		15,846,049
interest receivable						1,862	(15,494,008)	1,862
Due from other funds	955	71	703	107		1,862		
Due from State (Note 2)				15,494,008		15,494,008		
Debt issuance costs					2,618,996	2,618,996		2,618,996
Rentals due (Note 3)				2,904,236	79,867	2,984,103		2,984,103
Other assets	11,610			158,213,201		158,213,201		158,213,201
TOTAL ASSETS	\$ 269,968	\$ 19,056	\$ 16,502,361	\$ 176,641,910	\$ 2,705,983	\$ 196,139,278	\$ (15,494,008)	\$ 180,645,270

LIABILITIES AND FUND EQUITY

Liabilities								
Due to other funds	\$	\$	\$	\$	\$	\$	\$ (15,494,008)	\$
interest payable			15,494,008					
Project acquisition promissory notes (Note 5)				3,813,890	30,983	3,844,873		3,844,873
Bonds payable (Note 6)				4,435,076		4,435,076		4,435,076
Deferred revenues				168,707,096	2,675,000	171,382,096		171,382,096
Total liabilities			617,457			617,457	(15,494,008)	617,457
			16,111,465	176,956,062	2,705,983	195,773,510		180,279,502

Fund equity

Reserved (Note 7)
for debt service

for self insurance				570,000	570,000		
Unreserved (deficit)	100,000			100,000			100,000
Total fund equity	169,968	19,056	(314,152)	(125,128)			(125,128)
	269,968	19,056	(314,152)	365,768			365,768
TOTAL LIABILITIES AND FUND EQUITY	\$ 269,968	\$ 19,056	\$ 176,641,910	\$ 2,705,983	\$ 196,139,278	\$ (15,494,008)	180,645,270

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

**RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FISCAL YEAR ENDED JUNE 30, 1999**

	General Fund	Construction Fund	Debt Service Reserve Fund	Bond Fund	Refunding Bond Fund	Total (Memorandum Only)
Operating revenues						
Interest on loan to State of RI	\$	\$	\$	\$	\$	\$
Rental income				8,487,238	260,712	260,712
Recovery of administrative costs	56,560				4,150	60,710
Recovery of debt issuance costs					38,313	38,313
Total operating revenues	56,560			8,487,238	303,175	8,846,973
Operating expenses						
Personal services	18,476					18,476
Legal fees	253					253
Trustee fees	11,650				4,150	15,800
Professional services	9,475					9,475
Insurance	11,610					11,610
Amortization of debt issuance costs						

Miscellaneous	207,024	30,313	320,137
Total operating expenses	1,054	42,463	1,054
Operating income	8,197,414	260,712	8,462,168
Nonoperating revenues (expenses)			
Investment income:			
Interest income	13,067	1,050,790	1,086,704
Change in fair value of investments		(337,238)	(337,238)
Transfers in (out)	7	(889,382)	(37,400)
Interest expense		(122,661)	(10,119,918)
Other	(740)	(562)	(20)
Total nonoperating revenues (expenses)	12,334	(299,053)	(9,404,341)
Net income (loss)	16,376	(299,053)	(942,173)
Fund equity, July 1, 1998	253,592	689,949	1,307,941
Fund equity (deficit), June 30, 1999	\$ 269,968	\$ 390,896	\$ 365,768
	\$ 19,056	\$ (314,152)	\$

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

**RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINED STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 1999**

	General Fund	Construction Fund	Debt Service Reserve Fund	Bond Fund	Refunding Bond Fund	Total (Memorandum Only)
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Cash flows from operating activities:
Cash received for:

Administrative costs	₱	₱	₱	₱	₱	₱	₱	₱	₱
Trustee fees							4,150		56,500
Rents						20,358,369			20,358,369
Cash paid for:									
Personal services									(18,476)
Trustee fees							(4,150)		(25,450)
Other goods and services									(12,634)
Net cash provided by operating activities						20,358,369			20,358,369
Cash flows from noncapital financing activities:									
Principal paid on debt							(1,340,000)		(1,340,000)
Interest paid on debt							(275,675)		(275,675)
Recovery of debt issuance costs							41,768		41,768
Recovery of bond interest							275,675		275,675
Collection of loan							1,298,232		1,298,232
Operating transfers, net						852,283			852,283
Net cash provided by (used for) noncapital financing activities						852,283			(37,090)
Cash flows from capital and related financing activities:									
Capital expenditures								(155,078)	(155,078)
Principal paid on debt						(12,765,000)			(12,765,000)
Interest paid on debt						(8,888,494)			(9,011,115)
Debt issuance costs						(81,524)			(81,524)
Net cash used for capital and related financing activities						(21,735,018)			(22,012,715)
Cash flows from investing activities:									
Interest received								16,119	16,119

Investment fees	14,114	0,444	771,000	238	320	774,026
Net cash provided by investing activities	(740)	(327)	(562)	16,357	(20)	(1,411)
	11,372	5,895	956,977		308	990,900

**RHODE ISLAND REFUNDING BOND AUTHORITY
COMBINED STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 1999**

	General Fund	Construction Fund	Debt Service Reserve Fund	Bond Fund	Refunding Bond Fund	Total (Memorandum Only)
Net increase (decrease) in cash and cash equivalents	11,379	(149,183)	(55,066)	(508,009)	308	(700,57)
Cash and cash equivalents, July 1, 1998	246,024	168,168	710,675	538,367	6,786	1,670,020
Cash and cash equivalents, June 30, 1999	\$ 257,403	\$ 18,985	\$ 655,609	\$ 30,358	\$ 7,094	\$ 969,449
Reconciliation of operating income to net cash provided by operating activities						
Operating income	\$ 4,042	\$	\$	8,197,414	\$ 260,712	8,462,168
Adjustments:						
Interest expense					(260,712)	(260,712)
Amortization of debt issuance costs				289,824		289,824
Changes in assets and liabilities:						
Other assets						
Rentals due	12,626			11,871,131		11,883,757
Accounts payable	(16,668)					(16,668)
Total adjustments	(4,042)			12,160,955	(260,712)	11,896,201
Net cash provided by operating activities	\$	\$	\$	\$ 20,358,369	\$	\$ 20,358,369

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

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 fund types and account groups included in the State of Rhode Island's Comprehensive Annual Financial Report.

Basis of Presentation

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Authority, the accounts of the Authority are maintained in accordance with the principles of "Fund Accounting." This is a procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, accounts that have similar characteristics have been combined. Accordingly, all financial transactions have been recorded and reported by fund type.

Five funds are used to report the financial position and 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
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (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
NOTES TO FINANCIAL STATEMENTS**

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.

Total (Memorandum Only) Column

This column is presented for purposes of additional analysis only and is not a required part of the financial statements nor does it present consolidated financial information.

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 State Street Bank ("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.

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.

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

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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.

3. RENTALS DUE (continued)

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. 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
NOTES TO FINANCIAL STATEMENTS**

4. 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, 1999.

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 uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 includes 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>Fair Value</u>
U.S. Treasury Note and U.S. Government Agency Obligations	\$16,311,049	\$16,311,049
Unclassified as to risk:		
Money Market Funds		<u>504,449</u>
		\$16,815,498
Less: amounts classified as cash equivalents		<u>969,449</u>
Investments		<u>\$15,846,049</u>

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
NOTES TO FINANCIAL STATEMENTS

6. BONDS PAYABLE

Bonds payable of the Authority also include obligations issued by the former Rhode Island Public Buildings Authority. Information relating to each issue that was outstanding during the fiscal year is presented below.

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

In February 1988, the Authority (RBA) issued \$20,640,000 in General Obligation Revenue Bonds. These bonds which have interest rates ranging from 6.1% to 7.1% and 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 Revenue Bonds and the expenses of the Authority.

Principal amount outstanding at June 30, 1999 - \$2,675,000.

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

In July 1993, the Authority (PBA) 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, 1999 - \$135,865,000.

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.

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 Authority's State Public Projects Revenue Bonds.

Principal amount outstanding at June 30, 1999 - \$35,775,000.

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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>
2000	675,000	185,895	12,430,000	6,858,126		1,807,282
2001	670,000	139,995	11,050,000	6,273,916	2,105,000	1,807,282
2002	665,000	93,765	13,615,000	5,749,040		1,702,030
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>\$2,675,000</u>	<u>\$466,870</u>	<u>\$135,865,00</u>	<u>\$40,821,41</u>	<u>\$35,775,000</u>	<u>\$15,203,90</u>
			<u>0</u>	<u>4</u>		<u>0</u>

Total – All Issues

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	13,105,000	8,851,303	21,956,303
2001	13,825,000	8,221,193	22,046,193
2002	14,280,000	7,544,835	21,824,835
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>\$174,315,000</u>	<u>\$56,492,184</u>	<u>\$230,807,184</u>

Total bond principal	\$174,315,000
Add bond premium	960,579
Less bond discount	(924,730)
Less deferred bond discount	(2,968,753)

Bonds payable, net \$171,382,096

RHODE ISLAND REFUNDING BOND AUTHORITY
NOTES TO FINANCIAL STATEMENTS

7. FUND BALANCES

Reserved For Debt Service

This reserved fund balance reflects income that has been earned and will be used primarily to fund future debt service payments.

Reserved for Self Insurance

This reserved fund balance reflects amounts reserved to cover future contingencies not covered by the Authority's insurance program.

8. BOND DEFEASANCES

In prior years, the Authority defeased certain revenue bonds by placing proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. On June 30, 1999, \$88,956,000 was in escrow to be used to repay bonds totaling \$85,985,000 and the related interest, as the amounts become due and callable.

9. 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
NOTES TO FINANCIAL STATEMENTS

RHODE ISLAND REFUNDING BOND AUTHORITY REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Authority's operations.

The Authority relies primarily on the electronic data processing systems of an external organization (trustee) to process and record its transactions. The external organization is responsible for any required remediation to its systems and the related costs. It completed testing for all internal mission-critical and non-critical projects as of October 31, 1999 and all corrections were made.

Communications with vendors, business partners, counter-parties, and subcustodians, by the external organization, to obtain information on the Year 2000 readiness status of the products and services provided have been completed. The external organization has completed development of remediation contingency plans for those products and services that are considered high-risk. Key vendors have presented updates on their Year 2000 readiness programs and related progress, including contingency planning. The current focus has turned to implementation of business resumption contingency planning. Year 2000 assessments of business partners and counter-parties have been completed and the focus has turned to implementation of business resumption contingency planning. The organization has completed its analysis of subcustodians' readiness and will continue to monitor the subcustodian bank network. Subcustodian testing was successfully completed during the third quarter of calendar 1999 for all subcustodians where assets are currently held. In addition, the organization has contingency plans in place that include, where appropriate, identification of alternative subcustodian banks in each of its markets.

Because of the unprecedented nature of the Year 2000 issue, its effect and the success of related remediation efforts will not be determinable until the year 2000 and thereafter. Management cannot assure the Authority will be Year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that the parties with whom the Authority does business will be Year 2000 ready.



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Auditor General

State of Rhode Island and Providence Plantations

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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:

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, 1999, and have issued our report thereon dated October 8, 1999. 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 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 being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY

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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.



Ernest A. Almonte, CPA, CFE
Auditor General

October 8, 1999

