



PRESCOTT·CHATELLIER
FONTAINE·WILKINSON·LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL ADVISORS

IN CITY COUNCIL
OCT 19 2006

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED

Ann M. Steiner CLERK

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006
WITH
INDEPENDENT AUDITOR'S REPORT**

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

TABLE OF CONTENTS
JUNE 30, 2006

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 6
FINANCIAL STATEMENTS:	
Balance Sheet	7
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Statement of Cash Flows.....	9 - 10
Notes to Financial Statements	11 - 29
Supplementary Information:	
Combining Balance Sheet	30
Combining Statement of Revenues, Expenses, and Changes in Net Assets.....	31
Combining Statement of Cash Flows.....	32 - 33
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <u>Government Auditing Standards</u>	34 - 35



PRESCOTT·CHATELLIER
FONTAINE·WILKINSON·LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL ADVISORS

Two Charles Street, Providence, RI 02904
401 421 2710 telephone 401 274 5230 facsimile
www.yourcpafirm.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Providence Public Buildings Authority
Providence, Rhode Island

We have audited the accompanying basic financial statements of the PROVIDENCE PUBLIC BUILDINGS AUTHORITY (a Component Unit of the City of Providence) as of June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the PROVIDENCE PUBLIC BUILDINGS AUTHORITY'S management. Our responsibility is to express an opinion on these basic 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 financial position of the PROVIDENCE PUBLIC BUILDINGS AUTHORITY as of June 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2006 on our consideration of the PROVIDENCE PUBLIC BUILDINGS AUTHORITY'S internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 - 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic statements taken as a whole. The information listed as supplementary information, including the combining financial statements in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robert Chaitlin Fustain & Wilkinson, LLP

August 7, 2006

Providence Public Building Authority Management's Discussion and Analysis June 30, 2006

The primary functions of the Authority are to acquire, construct, maintain, renovate, repair and operate public facilities and public equipment through the use of public financing for lease to the City in order to provide for the conduct of the executive, legislative and judicial functions of government. The Authority is obligated to pay the principal and interest on any financing solely from the rents, revenues and receipts derived under the lease agreements with the City or from receipts on the disposition of the assets being financed. Under certain lease agreements the Authority receives, or has the option to request from the City, additional rents to pay administrative and other expenses.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2006. Since the Authority is a component unit of the City, its financial statements are included in the City's basic financial statements.

During the year ended June 30, 2006 \$11,055,000 in Bonds were retired.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplementary information.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

Balance Sheet – This statement presents information regarding the Authority's assets, liabilities and net assets. Net assets represent the total amount of assets less the total liabilities.

Statement of Revenues, Expenses and Changes in Net Assets – This statement presents the Authority's operating revenue, operating expenses and changes in net assets for the fiscal year.

Statement of Cash Flows – The Authority's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

CONDENSED FINANCIAL INFORMATION

- The Authority's total assets at June 30, 2006 were \$264,916,229 which is a decrease of approximately 7.50% over June 30, 2005
- The Authority's liabilities at June 30, 2006 were approximately \$262,904,946. This was a decrease of 7.51% over June 30, 2005
- The Authority's total operating revenues for the fiscal year ended June 30, 2006 were \$7,824,465. The Authority's total operating expenses were \$622,582. Non-operating income/(expenses) for the fiscal year ended June 30, 2006 were \$(7,327,987). This resulted in a decrease in net assets of \$126,104.

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net assets at June 30, 2006 were \$2,011,283, which is a decrease of \$126,104 or 5.90% from the June 30, 2005 net assets. Components of the Authority's balance sheet as of June 30, 2006 and June 30, 2005 were as follows:

Balance Sheet

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>Percentage Increase (Decrease)</u>
ASSETS				
Cash and cash equivalents	\$ 6,886,523	\$ 17,288,864	\$ (10,402,341)	-60.17%
Investments	18,390,280	18,136,532	253,748	1.40%
Note receivable	0	1,060,000	(1,060,000)	-100.00%
Rentals due	239,639,426	249,914,111	(10,274,685)	-4.11%
	<u>\$ 264,916,229</u>	<u>\$ 286,399,507</u>	<u>\$ (21,483,278)</u>	-7.50%
LIABILITIES				
Accrued expenses	\$ 2,067,771	\$ 255,076	\$ 1,812,695	710.65%
Accrued interest	352,339	373,728	(21,389)	-5.72%
Bonds payable	176,836,000	187,891,000	(11,055,000)	-5.88%
PAP notes payable	81,802,620	81,802,620	0	0%
Unexpended funds	1,820,014	13,859,575	(12,039,561)	-86.87%
Deposits held in custody for others	26,202	80,121	(53,919)	-67.30%
Total Liabilities	<u>262,904,946</u>	<u>284,262,120</u>	<u>(21,357,174)</u>	-7.51%
NET ASSETS				
Restricted for debt	768,885	782,270	(13,385)	-1.71%
Unrestricted	<u>1,242,398</u>	<u>1,355,117</u>	<u>(112,719)</u>	-8.32%
Total Net Assets	<u>2,011,283</u>	<u>2,137,387</u>	<u>(126,104)</u>	-5.90%
Total Liabilities and Net Assets	<u>\$ 264,916,229</u>	<u>\$ 286,399,507</u>	<u>\$ (21,483,278)</u>	-7.50%

The approximate \$21 million reduction in total assets for 2005 to 2006 is due to the continued expenditures related to the construction and renovations of schools and public facilities.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Authority's change in net assets for the fiscal year ended June 30, 2006 was \$(126,104), which is an increase of \$368,438 or 7.5% over the change in net assets for the fiscal year ended June 30, 2005. Components of the statement of revenues, expenses and changes in net assets for these two fiscal years are as follows:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>Percentage Increase (Decrease)</u>
Operating revenues:				
Rental income	\$ 7,824,465	\$ 8,197,025	\$ (372,560)	-4.55%
Total operating revenue	<u>7,824,465</u>	<u>8,197,025</u>	<u>(372,560)</u>	-4.55%
Operating expenses:				
Construction expenses	263,271	448,991	(185,720)	-41.36%
Legal, accounting and other professional fees	82,714	44,565	38,149	85.60%
Administration	170,959	147,432	23,527	15.96%
Arbitrage fees	105,638	99,278	6,360	6.41%
Total operating expenses	<u>622,582</u>	<u>740,266</u>	<u>(117,684)</u>	-15.90%
Operating income	7,201,883	7,456,759	(254,876)	-3.42%
Non-operating income (expenses)				
Interest income	1,383,782	1,311,709	72,073	5.49%
Unrealized net gain (loss) on investments	(20,357)	(74,436)	54,079	72.65%
Interest expense	<u>(8,691,412)</u>	<u>(9,188,574)</u>	497,162	5.41%
Net non-operating income (expense)	<u>(7,327,987)</u>	<u>(7,951,301)</u>	<u>623,314</u>	7.84%
Increase (decrease) in net assets	(126,104)	(494,542)	368,438	74.50%
Net asset, beginning of year	<u>2,137,387</u>	<u>2,631,929</u>	<u>(494,542)</u>	-18.79%
Net assets, end of year	<u>\$ 2,011,283</u>	<u>\$ 2,137,387</u>	<u>\$ (126,104)</u>	-5.90%

Sources of revenue included investment income on various money market mutual funds, U.S. treasury notes and bank investment contracts. Investment income for the year totaled \$1,383,782.

Providence Public Building Authority incurred \$8,691,412 in interest expense and \$622,582 in operating expenses, which includes construction expenses of \$263,271 funded from accumulated investment earnings. Legal, accounting and other professional fees totaled \$82,714; administration expense and arbitrage fees were \$170,959 and \$105,638, respectively.

Each year the City of Providence and the Water Department pay rent to the Providence Public Building Authority. This money is used to pay a portion of the principal and interest on the bond obligations; debt repayments totaled \$7,824,465 for the fiscal year ended June 30, 2006.

DEBT ADMINISTRATION

The Authority funds the rent receivables (which represents the underlying fixed assets transferred to the City), by issuing Revenue Bonds and Notes. The issues must comply with federal statutes and with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2006, the Authority had \$176,836,000 in bonds outstanding and \$81,802,620 in notes payable, a total decrease of 5.88% from the principal amounts outstanding at June 30, 2005. Detailed information of the Authority's debt is presented in Note 3 to the financial statements.

The Authority may borrow money temporarily for certain statutory purposes in anticipation of the issuance of bonds (BANs) and issue permanent notes sometime thereafter.

J P Morgan Trust Company, NA acts as the Trustee for the Authority.

DESCRIPTION OF CURRENTLY KNOWN FACTS

The Authority has experienced growth in all aspects of its operations. The Authority's current staff is able to handle the additional work associated with this growth.

Authority's interest expense on new debt is favorable as a result of lower rates on its tax-exempt issues, resulting in a decrease in interest expense.

The authority transferred fixed assets to the City during fiscal years ended June 30, 2006 and 2005. The accumulated total of capital asset transfers to the City was represented by rental receivable totaling \$239,639,426 due from the City at June 30, 2006. This receivable is realized over time in tandem with the pay down of debt service.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Providence Public Building Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Providence Public Building Authority, 400 Westminster Street, Providence, RI 02903.

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**BALANCE SHEET
JUNE 30, 2006**

ASSETS

Cash and cash equivalents	\$ 6,886,523
Investments	18,390,280
Rentals due	239,639,426
TOTAL ASSETS	<u><u>\$ 264,916,229</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accrued expenditures	\$ 2,067,771
Accrued interest	352,339
Bonds payable	176,836,000
PAP notes payable	81,802,620
Unexpended funds	1,820,014
Deposits held in custody for others	26,202
Total liabilities	<u><u>262,904,946</u></u>

Net assets:

Restricted for debt service	768,885
Unrestricted	1,242,398
Total net assets	<u><u>2,011,283</u></u>

**TOTAL LIABILITIES AND NET
ASSETS**

\$ 264,916,229

SEE NOTES TO FINANCIAL STATEMENTS.

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006**

Operating revenues:	
Rental income	\$ 7,824,465
Total operating revenues	<u>7,824,465</u>
Operating expenses:	
Construction expenses	263,271
Legal, accounting and other professional fees	82,714
Administration	170,959
Arbitrage fees	105,638
Total operating expenses	<u>622,582</u>
Operating income	<u>7,201,883</u>
Non-operating income (expenses):	
Interest income	1,383,782
Unrealized net loss on investments	(20,357)
Interest expense	<u>(8,691,412)</u>
Net non-operating income (expenses)	<u>(7,327,987)</u>
Decrease in net assets	(126,104)
Net assets, beginning of year	<u>2,137,387</u>
Net assets, end of year	<u>\$ 2,011,283</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

Cash flows from operating activities:	
Rents	\$ 19,159,151
Cash paid to suppliers for goods and services	(576,294)
Cash paid to employees	(46,288)
Net cash provided by operating activities	<u>18,536,569</u>
Cash flows from noncapital financing activities:	
Change in deposits held in custody for others	(53,919)
Net cash used for noncapital financing activities	<u>(53,919)</u>
Cash flows from investing activities:	
Interest income received	1,314,323
Purchase of investment securities	(204,648)
Net cash provided by investing activities	<u>1,109,675</u>
Cash flows from capital and related financing activities:	
Capital expenditures	(10,226,865)
Interest payments	(8,712,801)
Payments on bonds payable	(11,055,000)
Net cash used for capital and related financing activities	<u>(29,994,666)</u>
Net decrease in cash and cash equivalents	(10,402,341)
Cash and cash equivalents, beginning of year	<u>17,288,864</u>
Cash and cash equivalents, end of year	<u>\$ 6,886,523</u>

(CONTINUED)

SEE NOTES TO FINANCIAL STATEMENTS.

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

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

Operating income (loss)	\$ 7,201,883
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in rentals due	<u>11,334,686</u>
<i>Net cash provided by operating activities</i>	<u>\$ 18,536,569</u>

(CONCLUDED)

SEE NOTES TO FINANCIAL STATEMENTS.

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

Business Purpose and General Information

The Providence Public Buildings Authority (the Authority) was created by an act of the Rhode Island General Assembly and was empowered by resolution of the Providence City Council on August 13, 1987, and by resolution of the Public Finance Board, created under Section 42-10.1-1 of the General Laws of Rhode Island, on February 12, 1988. Under the act, the Authority constitutes a body politic and corporate having a distinct legal existence from the City of Providence, Rhode Island (the City). However, for financial reporting purposes, the Authority is a component unit of the City and, as such, the financial statements of the Authority are included in the City's basic financial statements.

The purpose of the Authority is to acquire, construct, maintain, renovate, repair and operate public facilities and public equipment through the use of public financing, for lease to the City in order to provide for the conduct of the executive, legislative and judicial functions of government. The Authority is obligated to pay the principal and interest on any financing solely from the rents, revenues, and receipts derived under the lease agreements with the City or from receipts on the disposition of the assets being financed. Under certain lease agreements the Authority receives, or has the option to request from the City, additional rents to pay administrative expenses.

Basis of Presentation

The operations of the Authority are accounted for on a Proprietary Fund Type (Enterprise Fund) basis. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other uses.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources management focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

In accordance with Statement No. 20 of the Governmental Accounting Standards Board, the Authority has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued since November 30, 1989.

To ensure observance of limitations and restrictions placed on the use of resources available to the Authority, the accounts are maintained in accordance with the principles of "Fund Accounting." Resources for various purposes are classified for accounting and reporting purposes into funds established and operated in accordance with activities or objectives specified.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (Continued)

The following fund types are used by the Authority:

Proprietary Funds - used to account for all general activities.

General Fund - used to account for the administrative operating activities of the Authority and funds that are held in escrow for other parties.

Construction Fund - used to account for revenues and expenses for the acquisition or construction and renovations of the Authority's projects.

Debt Service Reserve Fund - used to account for the debt service reserve requirement established by the various series resolutions.

Bond Fund - used to account for activity relating to the principal and interest payments on outstanding debt obligations including the liability for revenue bonds. The receipt of rental income and the payment of debt issuance costs.

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.

Investments

Investments, which included money market mutual funds, U.S. treasury notes, and guaranteed investment contracts, are recorded at fair value. The cost of investments sold is determined using the specific identification method.

Project Acquisition Promissory Notes Payable

The Authority executed project acquisition promissory notes payable to the City for certain properties conveyed by the City to the Authority. The notes bear interest ranging from 6% to 10% and are due upon the expiration of the leases for the properties to which they relate. The related lease agreements require the City to make lease payments to the Authority equal to all principal and interest payments due under the notes. Therefore, principal and interest payable under the notes, along with related rental income and debt service expenditures, have not been recorded in the accompanying financial statements. Project acquisition promissory notes payable at June 30, 2006 is \$81,802,620.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Income

Investment income is recognized in the fund which holds the investment.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

Estimates

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

2. CASH EQUIVALENTS AND INVESTMENTS

The Authority's investments consist of Fidelity Institutional Money Market Funds, Federated Government Obligations, U.S. Treasury Notes, Government Agency Bonds, and Guaranteed Investment Contracts. The various bond documents restrict the types of investments the Authority is permitted to purchase.

At June 30, the Authority had the following cash equivalents:

<u>Description</u>	<u>Fair Value</u>
Fidelity Institutional Cash Money Market Government Portfolio	\$6,304,224
Federal Government Obligation Fund.....	550,807
Fidelity Institutional Cash Tax Exempt Money Market	31,468
Federated Tax-Free Obligations	9
JP Morgan Chase Cash Fund.....	5
MBIA Guaranty Insurance.....	10
Total	<u>\$6,886,523</u>

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2006, the Authority had the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
West LB Guaranteed Investment Contract (GIC)	December 15, 2011	\$ 3,377,510
WestLB GIC	December 15, 2006	1,791,375
U.S. Treasury Note	November 9, 2006	2,359,773
AMBAC Capital Funding GIC	December 13, 2019	3,257,488
Federal National Mortgage Association	December 13, 2006	1,604,626
Federal National Mortgage Association	November 15, 2008	180,570
Federal National Mortgage Association	July 15, 2008	184,815
Federal Home Loan Bank	December 15, 2006	193,199
AIG Matched Funding Corp. GIC	December 10, 2021	829,474
AIG Matched Funding Corp. GIC	November 24, 2023	2,304,300
AIG Matched Funding Corp. GIC	December 12, 2023	<u>2,307,150</u>
Total		<u>\$18,390,280</u>

Interest Rate Risk

The Authority has investments in guaranteed investment contracts which have interest rates that are fixed for long periods and are subject to more variability in their fair value as a result of future changes in interest rates. The following investments are subject to interest rate risk:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
WestLB GIC	5.14%	December 15, 2011	\$3,377,510
Ambal Capital Funding GIC	5.32%	December 13, 2019	3,257,488
AIG Matched Funding GIC	5.38%	December 10, 2021	829,474
AIG Matched Funding GIC	4.60%	November 24, 2023	2,304,300
AIG Matched Funding GIC	4.246%	December 12, 2023	2,307,150

Credit Risk

As of June 30, 2006, the Authority's investment in WestLB guaranteed investment contracts was rated A – by Standard and Poors and A1 by Moody's Investor Services. The Authority's investment in AMBAC guaranteed investment contract was rated AAA by Standard and Poors and AA2 by Moody's Investor Services. The Authority's investment in AIG Matched Funding guaranteed investment contracts was rated AA by Standards and Poors and AA2 by Moody's Investors Services.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk

The types of investments are restricted by various bond documents. The following investments represent 5% or more of the Authority's investments.

<u>Description</u>	<u>Percent</u>
WestLB GIC	29%
AMBAC Capital Funding GIC	18%
AIG Matched Funding GIC	30%

3. REVENUE BONDS

1990 Series A and Series B

In December 1990, the Authority sold \$22,295,000 1990 Series A Revenue Bonds and \$14,105,000 1990 Series B Revenue Bonds. These bonds have interest rates ranging from 5.80% to 7.10% and mature through December 15, 2010.

The proceeds from Bond Issue Series A were used to refund certain bond anticipation notes issued to finance the Scituate Reservoir Project, to capitalize interest, to pay costs of issuance and to finance the debt service reserve fund. The 1990 Series B Bonds were issued to provide funds to effect the advance refunding of the 1988 Series A School Administration Building and School Buildings Project General Revenue Bonds.

In March 1996, the Authority advance refunded the 1990 Series A Bonds with the 1996 Series A Bonds. In September 2000 the Authority refunded the 1990 Series B Bonds with the 2000 Series Bonds.

1991 Series

In December 1991, the Authority sold \$13,100,000 1991 Series Revenue Bonds. These bonds have interest rates ranging from 6.90% to 7.75% and mature through December 1, 2011.

The proceeds from the bonds were used to repay a line of credit evidenced by the Authority's \$4,000,000 Taxable Bond Anticipation Notes, 1991 Series B, issued to finance the initial costs of renovating the Veazie Street School Project and the Modular Classrooms Project, to pay the remaining costs of the Series 1991 Projects, to fund a Debt Service Reserve Fund, to pay costs of issuance, and to provide for capitalized interest.

In March 1996, the Authority advance refunded the 1991 Series Bonds with the 1996 Series A Bonds.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

1995 Series B

In June 1995, the Authority sold \$7,500,000 1995 Series B Revenue Bonds. These bonds have interest rates ranging from 4.70% to 7.10% and mature through December 15, 2014.

The proceeds from the bonds along with \$125,904 received from the City of Providence, were used to refund the Authority's \$6,525,000, 1994 Series 2 Notes, which were issued to fund the Feinstein School Project, to pay administrative expenses of the Authority, to finance working capital, to pay costs of issuance, and to fund the Debt Service Reserve Fund for the 1995 Series B Bonds.

The annual principal and interest payments required to amortize the 1995 Series B Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 400,000	\$ 232,515	\$ 632,515
2008	420,000	211,395	631,395
2009	445,000	188,682	633,682
2010	470,000	164,200	634,200
2011	495,000	137,898	632,898
2012	525,000	109,847	634,847
2013	560,000	79,730	639,730
2014	590,000	48,563	638,563
2015	630,000	16,537	646,537
	<u>\$4,535,000</u>	<u>\$1,189,367</u>	<u>\$5,724,367</u>

1996 Series A

In March 1996, the Authority sold \$36,225,000 1996 Series A Refunding Revenue Bonds. These bonds have interest rates ranging from 3.50% to 5.40% and mature through December 15, 2011.

The proceeds from the bonds, along with \$375,000 received from the City, were used to provide funds to effect the advance refunding of the Authority's outstanding \$22,295,000 1990 Series A Bonds and the Authority's outstanding \$13,100,000 1991 Series Bonds, to fund the Debt Service Reserve Fund requirement for the 1996 Series A Bonds, and pay costs of issuance.

A payment of \$34,509,115 was deposited into an irrevocable trust with an escrow agent to provide for all future debt service on the 1990 Series A and 1991 Bonds. As a result, the 1990 Series A and 1991 Series Bonds are considered defeased and the liability for those bonds has been removed from the general long-term account group. The amount of defeased debt outstanding at June 30, 2006 is \$-0-.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

1996 Series A (Continued)

The annual principal and interest payments required to amortize the 1996 Series A Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,610,000	\$ 767,510	\$ 3,377,510
2008	2,725,000	635,440	3,360,440
2009	2,865,000	494,257	3,359,257
2010	3,005,000	344,573	3,349,573
2111	3,115,000	188,512	3,303,512
2012	2,020,000	54,540	2,074,540
	<u>\$16,340,000</u>	<u>\$2,484,832</u>	<u>\$18,824,832</u>

1996 Series B

In December 1996, the Authority sold \$21,225,000 1996 Series B Revenue Bonds. These bonds have interest rates ranging from 5.375% to 6.50% and mature through December 15, 2017.

The proceeds from the bonds were used to finance the acquisition, construction, renovation and equipping of various existing buildings for use as public schools, a parent-child center and a day care center, to provide for capitalized interest on the 1996 Series B Bonds, to provide for administrative expenses of the Authority, and to provide for cost of issuance for the 1996 Series B Bonds, and to fund the Debt Service Reserve Fund requirement for the 1996 Series B Bonds.

The annual principal and interest payments required to amortize the 1996 Series B Revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 990,000	\$ 744,611	\$ 1,734,611
2008	1,040,000	693,341	1,733,341
2009	1,095,000	638,351	1,733,351
2010	1,155,000	579,274	1,734,274
2011	1,215,000	516,013	1,731,013
2012	1,285,000	448,665	1,733,665
2013	1,355,000	377,385	1,732,385
2014	1,430,000	301,475	1,731,475
2015	1,505,000	220,763	1,725,763
2016	1,600,000	135,375	1,735,375
2017	1,700,000	45,688	1,745,688
	<u>\$14,370,000</u>	<u>\$4,700,941</u>	<u>\$19,070,941</u>

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

1997 Series A

In December 1997, the Authority sold \$1,925,000 1997 Series A Revenue Bonds. These bonds have interest rates ranging from 4.30% to 6.50% and mature through December 15, 2007.

The proceeds from the bonds were used to refund a portion of the outstanding principal balance of the Authority's \$4,325,000 Roger Williams Park Zoo "Plains of Africa Exhibit" Project Revenue Bonds, 1992 Series A, to pay administrative expenses of the Authority, to provide for the cost of issuance for the 1997 Series A Bonds, and to fund the Debt Service Reserve Fund requirement for the 1997 Series A Bonds. The remaining principal of the 1992 Series A Bonds was paid from funds provided by the City's Park Department.

The annual principal and interest payments required to amortize the 1997 Series A Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$225,000	\$17,234	\$242,234
2008.....	235,000	5,875	240,875
	<u>\$460,000</u>	<u>\$23,109</u>	<u>\$483,109</u>

1998 Series A

In May 1998, the Authority sold \$28,270,000 1998 Series A Revenue Bonds. These bonds have interest rates ranging from 3.85% to 5.10% and mature through December 15, 2018.

The proceeds from the bonds were used to finance the acquisition, construction, expansion, renovation, rehabilitation, repair, improvement, furnishing and equipping of various existing and new buildings for use as public schools, athletic fields at various schools, the administrative offices for the Providence Community Action Program, the Providence Civic Center, and the Providence Hurricane Barrier, to pay administrative expenses of the Authority, to provide for the cost of issuance for the 1998 Series A Bonds, and to fund the Debt Service Reserve Fund requirement for the 1998 Series A Bonds.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

1998 Series A (Continued)

The annual principal and interest payments required to amortize the 1998 Series A Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 1,355,000	\$ 990,550	\$ 2,345,550
2008.....	1,420,000	921,175	2,341,175
2009.....	1,495,000	849,421	2,344,421
2010.....	1,270,000	782,053	2,052,053
2011.....	1,335,000	717,563	2,052,563
2012.....	1,400,000	649,188	2,049,188
2013.....	1,475,000	576,575	2,051,575
2014.....	1,550,000	498,275	2,048,275
2015.....	1,635,000	414,669	2,049,669
2016.....	1,720,000	328,750	2,048,750
2017.....	1,810,000	240,500	2,050,500
2018.....	1,905,000	147,625	2,052,625
2019.....	2,000,000	50,000	2,050,000
	<u>\$20,370,000</u>	<u>\$7,166,344</u>	<u>\$27,536,344</u>

1999 Series A

In July 1999, the Authority sold \$39,750,000 1999 Series A Revenue Bonds. These Bonds have interest rates ranging from 4.10% to 5.5% and mature through December 15, 2019.

The proceeds from the bonds were used to finance the acquisition, construction, expansion, renovation, rehabilitation, repair, improvement, furnishing and equipping of a new elementary school, a new middle school complex, the acquisition of the land for a new school, and the repair and renovation of existing public facilities and schools, to pay administrative expenses of the Authority, to pay cost of issuance, to fund the Debt Service Reserve Fund requirement for the 1999 Series A Bonds, and to provide for capitalized interest.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

1999 Series A (Continued)

The annual principal and interest payment required to amortize the 1999 Series A Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,590,000	\$ 1,582,556	\$ 3,172,556
2008	1,665,000	1,506,859	3,171,859
2009	1,750,000	1,425,731	3,175,731
2010	1,835,000	1,337,856	3,172,856
2011	1,930,000	1,243,731	3,173,731
2012	2,035,000	1,140,790	3,175,790
2013	2,145,000	1,027,113	3,172,113
2014	2,265,000	911,500	3,176,500
2015	2,380,000	793,888	3,173,888
2016	2,505,000	667,144	3,172,144
2017	2,640,000	532,088	3,172,088
2018	2,785,000	389,681	3,174,681
2019	2,935,000	239,531	3,174,531
2020	3,095,000	81,244	3,176,244
	<u>\$31,555,000</u>	<u>\$12,879,712</u>	<u>\$44,434,712</u>

2000 Series A

In May 2000, the Authority sold \$18,770,000 2000 Series A Revenue Bonds. These Bonds have interest rates ranging from 5.5% to 5.8% and mature through December 15, 2020.

The proceeds from the bonds were used to finance the acquisition, construction, expansion, renovation, rehabilitation, repair, improvement, furnishing, and equipping of a new elementary school and school-related facilities in the City, to fund administrative expenses of the Authority, to pay cost of issuance, to fund the Debt Service Reserve Fund requirement for the 2000 Series A Bonds and to provide for capitalized interest.

The annual principal and interest payment required to amortize the 2000 Series A Revenue Bonds are as follows:

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

2000 Series A (Continued)

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 695,000	\$ 895,640	\$ 1,590,640
2008	730,000	856,452	1,586,452
2009	775,000	815,065	1,590,065
2010	815,000	771,340	1,586,340
2011	865,000	725,140	1,590,140
2012	910,000	676,328	1,586,328
2013	965,000	624,765	1,589,765
2014	1,020,000	569,668	1,589,668
2015	1,080,000	510,733	1,590,733
2016	1,140,000	447,867	1,587,867
2017	1,210,000	380,590	1,590,590
2018	1,280,000	308,682	1,588,682
2019	1,360,000	229,062	1,589,062
2020	1,445,000	141,406	1,586,406
2021	1,540,000	48,125	1,588,125
	<u>\$15,830,000</u>	<u>\$8,000,863</u>	<u>\$23,830,863</u>

2000 Series B

In September 2000, the Authority sold \$10,435,000 2000 Series B Refunding Revenue Bonds. These Bonds have interest rates ranging from 5.25 % to 5.75 % and mature through December 15, 2010.

The proceeds from the bonds were used to refund the Authority's \$14,105,000 1990 Series B Revenue Bonds outstanding amount of \$10,040,000 and to fund the Debt Service Reserve Fund requirement for the 2000 Series B Bonds and to pay the cost of issuance.

The annual principal and interest payments required to amortize the 2000 Series B Refunding Revenue Bonds are as follows.

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,000,000	\$296,888	\$1,296,888
2008	1,075,000	238,481	1,313,481
2009	1,135,000	174,944	1,309,944
2010	1,205,000	107,669	1,312,669
2011	1,270,000	36,513	1,306,513
	<u>\$5,685,000</u>	<u>\$854,495</u>	<u>\$6,539,495</u>

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

2001 Series A

In December 2001, the Authority sold \$9,995,000 2001 Series A Revenue Bonds. These Bonds have interest rates ranging from 3.25% to 5.125% and mature through December 2021.

The proceeds from the bonds were used to finance the acquisition, construction, expansion, renovation, rehabilitation, repair, improvements, furnishing, and equipping of a new high school, an elementary school annex, the repair and renovations of existing schools, the renovation and repair of the Providence Hurricane Barrier and other public facilities, the renovation of a building to be used as a warehouse for the school system, the design and planning phases of future school projects, the renovation of Central High School, to pay administrative expenses of the Authority, to pay cost of issuance, to fund the Debt Service Reserve Fund requirement for the 2001 Series A Bonds, and to provide for capitalized interest.

The annual principal and interest payment required to amortize the 2001 Series A Revenue Bonds are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 390,000	\$ 430,149	\$ 820,149
2008	405,000	413,996	818,996
2009	420,000	396,718	816,718
2010	440,000	378,168	818,168
2011	460,000	358,193	818,193
2012	480,000	336,743	816,743
2013	500,000	313,768	813,768
2014	525,000	289,096	814,096
2015	550,000	262,549	812,549
2016	580,000	234,299	814,299
2017	605,000	204,371	809,371
2018	640,000	172,544	812,544
2019	670,000	138,137	808,137
2020	705,000	101,183	806,183
2021	745,000	62,215	807,215
2022	785,000	21,096	806,096
	<u>\$8,900,000</u>	<u>\$4,113,225</u>	<u>\$13,013,225</u>

2002 Series A

In December 2002, the Authority sold \$1,216,000 2002 Series A Qualified Zone Academy Bonds. In lieu of interest, each qualified taxpayer and owner of the 2002 Series A Bonds shall be entitled to receive a tax credit as detailed in Section 226 (a) of the Taxpayer Relief Act of 1997. These bonds mature on December 24, 2008.

The proceeds from these bonds were used to finance the purchase of equipment and the latest technology, to pay cost of issuance, and to pay administrative expenses.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

2002 Series A (Continued)

The Sinking Fund deposits and interest earnings will be held in the 2002 Series A Bonds Sinking Fund Account in the Debt Service Fund. The annual principal and interest earned on deposits are as follows:

<u>December 24</u>	<u>Sinking Fund Deposit</u>	<u>Interest Earned</u>	<u>Total</u>
2003	\$ 197,659	\$ 0	\$ 197,659
2004	197,659	1,976	199,635
2005	197,659	3,973	201,632
2006	197,659	5,989	203,648
2007	197,659	8,026	205,685
2008	197,659	10,082	207,741
Total	<u>\$1,185,954</u>	<u>\$30,046</u>	<u>\$1,216,000</u>

2003 Series A

In March 2003, the Authority sold \$31,000,000 2003 Series A Revenue Bonds. These Bonds have interest rates ranging from 2.5% to 5.0% and mature through December 2023.

The proceeds from the bonds were used to finance the acquisition, construction, expansion, rehabilitation, repair, improvements, furnishing, and equipment of a new high school, an elementary school annex, the modernization of existing schools, the renovation and repair of the Providence Hurricane Barrier and other public facilities, the renovation of a building to be used as a warehouse for the school system, the design and planning phases of future school projects, the renovation of Central High School, to pay administrative expenses of the Authority, to pay cost of issuance, to fund Debt Service Reserve Fund requirement for the 2003 Series A Bonds and to provide capitalized interest.

The annual principal and interest payment required to amortize the 2003 Series A. Revenue Bonds are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,185,000	\$1,102,850	\$2,287,850
2008	1,215,000	1,072,850	2,287,850
2009	1,245,000	1,042,100	2,287,100
2010	1,275,000	1,009,005	2,284,005
2011	1,310,000	971,825	2,281,825
2012	1,350,000	930,238	2,280,238

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

2003 Series A (Continued)

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	1,395,000	880,400	2,275,400
2014	1,450,000	823,500	2,273,500
2015	1,505,000	764,400	2,269,400
2016	1,570,000	702,900	2,272,900
2017	1,630,000	638,900	2,268,900
2018	1,695,000	563,925	2,258,925
2019	1,780,000	484,838	2,264,838
2020	1,855,000	408,706	2,263,706
2021	1,930,000	327,069	2,257,069
2022	2,015,000	239,513	2,254,513
2023	2,110,000	146,700	2,256,700
2024	2,205,000	49,613	2,254,613
Total	<u>\$28,720,000</u>	<u>\$12,159,332</u>	<u>\$40,879,332</u>

2003 Series B

In June 2003, the Authority sold \$31,000,000 2003 Series B Revenue Bonds. These bonds have interest rates ranging from 3.0% to 5.0% and mature through December 2023.

The proceeds from the bonds were used to finance the acquisition, construction, furnishing and equipping various high schools, the Conley Stadium and Field, the Fox Point Bath House, and various school renovation projects, to pay administrative expenses of the Authority, to pay cost of issuance, to fund Debt Service Reserve Fund Requirement for the 2003 Series B Bonds and to provide capitalized interest.

The annual principal and interest payment required to amortize the 2003 Series B Revenue Bonds are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,155,000	\$1,128,475	\$2,283,475
2008	1,200,000	1,081,375	2,281,375
2009	1,245,000	1,032,475	2,277,475
2010	1,295,000	988,150	2,283,150
2011	1,335,000	947,031	2,282,031
2012	1,380,000	902,913	2,282,913
2013	1,425,000	855,550	2,280,550
2014	1,475,000	804,800	2,279,800
2015	1,525,000	751,347	2,276,347
2016	1,580,000	694,081	2,274,081
2017	1,640,000	631,656	2,271,656

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. REVENUE BONDS (Continued)

2003 Series B (Continued)

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	1,705,000	563,691	2,268,691
2019	1,775,000	490,806	2,265,806
2020	1,850,000	412,619	2,262,619
2021	1,935,000	328,612	2,263,612
2022	2,020,000	239,625	2,259,625
2023	2,110,000	146,700	2,256,700
2024	2,205,000	49,613	2,254,613
Total	<u>\$28,885,000</u>	<u>\$12,049,519</u>	<u>\$40,904,519</u>

All the Revenue Bonds are secured by a pledge of lease rentals to be received from the City pursuant to the lease agreements relating to projects financed by the Authority and leased to the City.

4. LEASES

The Authority leases certain properties to the City under the following terms (the first four leases are incorporated into the consolidated lease agreement entered into under the \$36,400,000 1990 Series A and B General Revenue Bonds).

School Administration Building and School Buildings Project

The premises were acquired and/or renovated by the Authority with the proceeds from the \$13,000,000 1988 Series A General Revenue Bonds. The lease commenced on December 15, 1988 and terminates on September 15, 2015.

Carousel Project

This project relates to the installation and construction of a carousel at the Roger Williams Park. The project was financed with the initial issuance of \$1,500,000 in Revenue Bond Anticipation Notes. The lease commenced on September 6, 1989 and terminates September 15, 2015.

Scituate Reservoir Project

This project relates to the acquisition and maintenance of parcels of land surrounding the Scituate Reservoir. It was financed with portion of the proceeds from the initial issuance of \$7,500,000 in Revenue Bond Anticipation Notes. The lease commenced on June 14, 1990 and terminates on September 15, 2015.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

4. LEASES (Continued)

Municipal Facilities Project

This project relates to renovations and improvements made to City Hall, renovations to fire stations, repairs to City swimming pools and recreation centers, and repairs and improvements to other municipal buildings and facilities. The project was financed with the initial issuance of \$6,500,000 in Revenue Bond Anticipation Notes. The lease commenced on September 13, 1990 and terminates September 15, 2015.

Veazie Street School Project

This project includes constructions, renovation, rehabilitation, improvements, and necessary furnishings and equipping of Veazie Street Elementary School. The lease commenced on December 1, 1991, and terminates on December 1, 2015.

Roger Williams Park Zoo "Plains of Africa Exhibit" Project

This project involved considerable site work, dry and wet moat construction, artificial rock work construction, new landscaping, barrier construction, and educational graphics. It was financed with the proceeds of \$4,150,000 in Bond Anticipation Notes, the \$4,235,000 1992 Series A Revenue Bonds and the \$1,925,000 1997 Series A Revenue Bonds. The lease commenced on July 31, 1991 and terminates on July 20, 2010.

Feinstein School Project

This project consists of the purchase, renovation and equipping of an office building for use as a high school. The lease commenced on June 28, 1994 and terminates on September 15, 2015.

1996 School Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing and equipping of existing buildings. The lease commenced on December 1, 1996 and terminates on December 15, 2016.

1998 School and Public Facilities Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing and equipping of existing and new buildings and athletic fields. The lease commenced on May 15, 1998 and terminates on December 15, 2018.

1999 School And Public Facilities Projects

These projects consist of acquisition, construction, expansion, renovation, rehabilitation, repair, improvement and equipping of a new elementary school and a new middle school complex. The lease commenced on July 1, 1999 and terminates on December 15, 2019.

2000 School Projects

These projects consist of acquisition, construction, expansion, renovation, rehabilitation, repair, improvement, furnishing and equipping of a new elementary school and school-related facilities. The lease commenced on May 15, 2000 and terminates on December 15, 2020.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

4. LEASES (Continued)

2001 School and Public Facilities Project

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing, and equipping a new school annex and other school facilities. The lease commenced on December 1, 2001 and terminates on December 15, 2021.

2002 A School Projects

These projects consist of the automation of elementary, middle and high school libraries and updating and repairing middle school science laboratories. The lease commenced on December 24, 2002 and terminates on December 24, 2008.

2003 A School Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing and equipping a new high school. The lease commenced on March 1, 2003 and terminates on December 15, 2013.

2003 B School Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvements, furnishings and equipping a new high school, and other school projects. The lease commenced on June 1, 2003 and terminates on December 15, 2013.

At the expiration of the leases, the City at its option, can purchase the properties from the Authority for a nominal amount.

The lease agreements relating to projects financed by the Authority require, among other things, that the City make annual rental payments that are sufficient to meet the related bond principal and interest requirements and note interest. However, the rents to be paid to the Authority shall be reduced to the extent that such interest and principal payments for any such period are provided from the proceeds of bonds or notes or from the investment earnings of such proceeds and from net gate income relating to the Roger Williams Park Zoo "Plains of Africa Exhibit" Project, received by the Authority.

Also, the obligations of the City to pay rents under the lease agreements is subject to and dependent upon appropriations being made by the City for such purposes. Such appropriations are dependent upon the City's budgetary process and are therefore dependent on the City's general financial resources and factors affecting those resources. Lease payments from the City totaled \$18,933,911 for the year ended June 30, 2006.

Note 3 presents the estimated future minimum lease payments required for bond principal retirement and interest to be received from the City. However, to the extent that the principal and interest payments are provided for from the proceeds of bonds, or from net gate income, the City is not required to make lease payments to the Authority. State aid for school construction is received by the City and is passed on to the Authority as part of City lease payments on related projects.

The Authority is a component unit of the City. As such, all long-term lease obligations and the related capital assets of the Authority are included in the City's basic financial statements.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

5. COMMITMENT AND CONTINGENCIES

The Authority participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) which provides coverage for property/liability and workers' compensation claims. Upon joining the trust, the Authority signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Authority. The agreement states that for premiums paid by the Authority, the Trust will assume financial responsibility for the Authority's losses up to the maximum amount of insurance purchased, minus the Authority's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from pooled contributions of its members. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years.

The Authority is committed under various other contracts for projects in the amount of \$3,036,044 at June 30, 2006.

6. LONG-TERM DEBT

The following schedule reflects the changes in long-term debt during fiscal year 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
General revenue bonds payable	\$187,891,000	\$ -0-	\$11,055,000	\$176,836,000

7. ESCROW ACTIVITIES

The Escrow Activities account for ticket restoration charges held by the Authority on behalf of the Providence Civic Center and for activity related to the Roger Williams Park Zoo. In November 2005, the Authority terminated the ticket restoration charge pledge agreement and the balance at June 30, 2006 is for activities related to the Roger Williams Park Zoo.

	<u>Balance July 1 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30 2006</u>
<u>Assets</u>				
Cash and cash equivalents	\$80,121	\$978,268	\$1,032,187	\$26,202
<u>Liabilities</u>				
Deposits held in custody for others	\$80,121	\$978,268	\$1,032,187	\$26,202

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

4. LEASES (Continued)

2001 School and Public Facilities Project

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing, and equipping a new school annex and other school facilities. The lease commenced on December 1, 2001 and terminates on December 15, 2021.

2002 A School Projects

These projects consist of the automation of elementary, middle and high school libraries and updating and repairing middle school science laboratories. The lease commenced on December 24, 2002 and terminates on December 24, 2008.

2003 A School Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvement, furnishing and equipping a new high school. The lease commenced on March 1, 2003 and terminates on December 15, 2013.

2003 B School Projects

These projects consist of acquisition, construction, renovations, rehabilitation, improvements, furnishings and equipping a new high school, and other school projects. The lease commenced on June 1, 2003 and terminates on December 15, 2013.

At the expiration of the leases, the City at its option, can purchase the properties from the Authority for a nominal amount.

The lease agreements relating to projects financed by the Authority require, among other things, that the City make annual rental payments that are sufficient to meet the related bond principal and interest requirements and note interest. However, the rents to be paid to the Authority shall be reduced to the extent that such interest and principal payments for any such period are provided from the proceeds of bonds or notes or from the investment earnings of such proceeds and from net gate income relating to the Roger Williams Park Zoo "Plains of Africa Exhibit" Project, received by the Authority.

Also, the obligations of the City to pay rents under the lease agreements is subject to and dependent upon appropriations being made by the City for such purposes. Such appropriations are dependent upon the City's budgetary process and are therefore dependent on the City's general financial resources and factors affecting those resources. Lease payments from the City totaled \$18,933,911 for the year ended June 30, 2006.

Note 3 presents the estimated future minimum lease payments required for bond principal retirement and interest to be received from the City. However, to the extent that the principal and interest payments are provided for from the proceeds of bonds, or from net gate income, the City is not required to make lease payments to the Authority. State aid for school construction is received by the City and is passed on to the Authority as part of City lease payments on related projects.

The Authority is a component unit of the City. As such, all long-term lease obligations and the related capital assets of the Authority are included in the City's basic financial statements.

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

5. COMMITMENT AND CONTINGENCIES

The Authority participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) which provides coverage for property/liability and workers' compensation claims. Upon joining the trust, the Authority signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Authority. The agreement states that for premiums paid by the Authority, the Trust will assume financial responsibility for the Authority's losses up to the maximum amount of insurance purchased, minus the Authority's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from pooled contributions of its members. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years.

The Authority is committed under various other contracts for projects in the amount of \$3,036,044 at June 30, 2006.

6. LONG-TERM DEBT

The following schedule reflects the changes in long-term debt during fiscal year 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
General revenue bonds payable	<u>\$187,891,000</u>	<u>\$ -0-</u>	<u>\$11,055,000</u>	<u>\$176,836,000</u>

7. ESCROW ACTIVITIES

The Escrow Activities account for ticket restoration charges held by the Authority on behalf of the Providence Civic Center and for activity related to the Roger Williams Park Zoo. In November 2005, the Authority terminated the ticket restoration charge pledge agreement and the balance at June 30, 2006 is for activities related to the Roger Williams Park Zoo.

	<u>Balance July 1 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30 2006</u>
<u>Assets</u>				
Cash and cash equivalents	<u>\$80,121</u>	<u>\$978,268</u>	<u>\$1,032,187</u>	<u>\$26,202</u>
<u>Liabilities</u>				
Deposits held in custody for others	<u>\$80,121</u>	<u>\$978,268</u>	<u>\$1,032,187</u>	<u>\$26,202</u>

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

8. PROVIDENCE CIVIC CENTER PROJECT/NONCASH TRANSACTION

As part of the 1998 Series A Revenue Bonds, the Authority issued bonds in the amount of \$2,325,000 for the renovation and improvements to the Providence Civic Center. With the sale of the Providence Civic Center to the Rhode Island Convention Center Authority, the note between the Authority and the Providence Civic Center Authority was cancelled with a remaining balance of \$1,060,000. According to the lease agreement (1998 School and Public Facilities Projects) between the Authority and the City of Providence, the City will make rental payments to cover the debt service payments related to the portion of bond proceeds allocated for the Civic Center project.

9. RETIREMENT PLAN

The Authority funds a SEP IRA Plan covering all employees under which the Authority is required to contribute 15% of covered payroll. For fiscal year ended June 30, 2006, the Authority contributed \$6,984 to the Plan.

(CONCLUDED)

SUPPLEMENTARY INFORMATION

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**COMBINING BALANCE SHEET
JUNE 30, 2006**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Bond Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 134,432	\$ 5,021,953	\$ 772,018	\$ 958,120		\$ 6,886,523
Investments				18,390,280		18,390,280
Due from other funds			19,351,533		\$ (19,351,533)	0
Rentals due			239,639,426			239,639,426
TOTAL ASSETS	\$ 134,432	\$ 5,021,953	\$ 259,762,977	\$ 19,348,400	\$ (19,351,533)	\$ 264,916,229
 <u>LIABILITIES AND NET ASSETS</u>						
Liabilities:						
Accrued expenditures		\$ 2,067,771				\$ 2,067,771
Due to other funds				\$ 19,351,533	\$ (19,351,533)	0
Accrued interest payable			\$ 352,339			352,339
PAP notes payable			81,802,620			81,802,620
Bonds payable			176,836,000			176,836,000
Unexpended funds		1,820,014				1,820,014
Deposits held in custody for others	\$ 26,202					26,202
Total liabilities	26,202	3,887,785	258,990,959	19,351,533	(19,351,533)	262,904,946
 Net assets:						
Restricted for debt service			772,018	(3,133)		768,885
Unrestricted	108,230	1,134,168				1,242,398
Total net assets	108,230	1,134,168	772,018	(3,133)		2,011,283
 TOTAL LIABILITIES AND NET ASSETS	 \$ 134,432	 \$ 5,021,953	 \$ 259,762,977	 \$ 19,348,400	 \$ 0	 \$ 264,916,229

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Bond Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Eliminations</u>	<u>Totals</u>
Operating revenues:						
Rental income			\$ 7,824,465			\$ 7,824,465
Total operating revenues			7,824,465			7,824,465
Operating expenses:						
Construction expenses		\$ 263,271				263,271
Legal, accounting and other professional fees	\$ 72,089		10,625			82,714
Administration	170,959					170,959
Arbitrage fees	2,400		103,238			105,638
Total operating expenses	245,448	263,271	113,863			622,582
Operating income (loss)	(245,448)	(263,271)	7,710,602			7,201,883
Non-operating income (expenses):						
Interest income	8,463	387,537	36,619	\$ 951,163		1,383,782
Transfers in	7,810	1,304,090	15,091,120		\$ (16,403,020)	0
Unrealized net loss on investments				(20,357)		(20,357)
Interest expense			(8,691,412)			(8,691,412)
Transfers out	(8,276)	(1,303,624)	(14,156,972)	(934,148)	16,403,020	0
Net non-operating income (expenses)	7,997	388,003	(7,720,645)	(3,342)	0	(7,327,987)
Increase (decrease) in net assets	(237,451)	124,732	(10,043)	(3,342)	0	(126,104)
Net assets, beginning of year	345,681	1,009,436	782,061	209		2,137,387
Net assets (deficit), end of year	\$ 108,230	\$ 1,134,168	\$ 772,018	\$ (3,133)	\$ 0	\$ 2,011,283

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Bond Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:						
Rents			\$ 19,159,151			\$ 19,159,151
Cash paid to suppliers for goods and services	\$ (201,382)	\$ (261,049)	(113,863)			(576,294)
Cash paid to employees	(44,066)	(2,222)				(46,288)
Net cash provided (used) by operating activities	(245,448)	(263,271)	19,045,288	\$ 0	\$ 0	18,536,569
Cash flows from noncapital financing activities:						
Change in deposits held in custody for others	(53,919)					(53,919)
Operating transfers net	(466)	466	934,148	(934,148)		0
Net cash provided (used) by noncapital financing activities	(54,385)	466	934,148	(934,148)	0	(53,919)
Cash flows from investing activities:						
Interest income received	8,463	387,536	36,618	881,706		1,314,323
Purchase of investment securities				(204,648)		(204,648)
Net cash provided by investing activities	8,463	387,536	36,618	677,058	0	1,109,675
Cash flows from capital and related financing activities:						
Advances			(257,660)	257,660		0
Capital expenditures		(10,226,865)				(10,226,865)
Interest payments			(8,712,801)			(8,712,801)
Payments on bonds payable			(11,055,000)			(11,055,000)
Net cash provided (used) by capital and related financing activities	0	(10,226,865)	(20,025,461)	257,660	0	(29,994,666)
Net increase (decrease) in cash and cash equivalents	(291,370)	(10,102,134)	(9,407)	570	0	(10,402,341)
Cash and cash equivalents, beginning of year	425,802	15,124,087	781,425	957,550	0	17,288,864
Cash and cash equivalents, end of year	\$ 134,432	\$ 5,021,953	\$ 772,018	\$ 958,120	\$ 0	\$ 6,886,523

(CONTINUED)

PROVIDENCE PUBLIC BUILDINGS AUTHORITY

**COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Bond Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Eliminations</u>	<u>Total</u>
<i>Reconciliation of operating income to net cash provided by operating activities:</i>						
Operating income (loss)	\$ (245,448)	\$ (263,271)	\$ 7,710,602	\$ 0	\$ 0	\$ 7,201,883
Adjustments to reconcile operating income to net cash provided by operating activities:						
Changes in operating assets and liabilities:						
Decrease in rentals due			11,334,686			11,334,686
<i>Net cash provided (used) by operating activities</i>	<u>\$ (245,448)</u>	<u>\$ (263,271)</u>	<u>\$ 19,045,288</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,536,569</u>

(CONCLUDED)



PRESCOTT·CHATELLIER
FONTAINE·WILKINSON·LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL ADVISORS

Two Charles Street, Providence, RI 02904
401 421 2710 telephone 401 274 5230 facsimile
www.yourcpafirm.com

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

Board of Directors
Providence Public Buildings Authority
Providence, Rhode Island

We have audited the financial statements of the Providence Public Buildings Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Providence Public Buildings 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 an opinion 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 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 misstatement caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, and management of the Authority and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Prescott Quattrin Fortain & Williamson, LLP

August 7, 2006

PRESCOTT·CHATELLIER
FONTAINE·WILKINSON·LLP

Two Charles Street, Providence, RI 02904
401 421 2710 telephone 401 274 5230 facsimile
www.yourcpafirm.com