



September 20, 2011

Mr. Robert Donovan  
Rhode Island Health and Educational Building Corporation  
170 Westminster Street  
Providence, RI 02903

Mr. Donovan:

Please find enclosed fifteen final copies of the financial statements of Rhode Island Health and Educational Building Corporation for the year ended June 30, 2011.

Very truly yours,

David A. DiIulis

DAD/cd  
Enclosures

**RHODE ISLAND HEALTH AND  
EDUCATIONAL BUILDING  
CORPORATION**  
**(a Component Unit of the State of Rhode Island)**

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**FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011 and 2010**

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
(a Component Unit of the State of Rhode Island)

**Financial Statements and  
Management's Discussion and Analysis**

**June 30, 2011 and 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Rhode Island Health and Educational Building Corporation

We have audited the accompanying statements of net assets of Rhode Island Health and Educational Building Corporation (a component unit of the State of Rhode Island) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Rhode Island Health and Educational Building Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Rhode Island Health and Educational Building Corporation as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated, September 13, 2011, on our consideration of Rhode Island Health and Educational Building Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing and not provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis (MD&A), on pages 3 to 6, is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

O'Connor & Dew, P.C.

**Certified Public Accountants**

September 13, 2011

# **RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION**

**(a Component Unit of the State of Rhode Island)**

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

The following discussion and analysis offers readers of Rhode Island Health and Educational Building Corporation's (the "Corporation's") financial statements a narrative overview of the financial position and activities of the Corporation for the fiscal year ended June 30, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, that are separately provided.

The Corporation provides tax-exempt bond and lease financing for private, non-profit, healthcare and educational institutions in the state of Rhode Island. The debt obligation and payment is the sole responsibility of the non-profit borrowing institution and is not the obligation of the Corporation.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of three components: 1) the financial statements, 2) the notes to the financial statements and 3) other supplementary information.

**The Financial Statements** - The financial statements provide both long-term and short-term information about the Corporation's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

These statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Change in Net Assets. All assets and liabilities associated with the operations of the Corporation are included in the Statement of Net Assets.

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Management's Discussion and Analysis - Continued

### FINANCIAL HIGHLIGHTS

The Corporation's total net assets decreased \$89,472 (or 1%)

Cash and investments increased \$425,425 (or 7%)

Operating revenues decreased \$6,607 (or 0%)

Operating expenses decreased \$49,943 (or 3%)

Change in net assets increased \$581,021 (or 87%)

### FINANCIAL ANALYSIS OF THE CORPORATION

*The following table summarizes the Change in Net Assets between fiscal years ending June 30, 2011, 2010 and 2009:*

|  | <u>2011</u>         | <u>2010</u>         | <u>%</u> | <u>2009</u>         | <u>%</u> |
|--|---------------------|---------------------|----------|---------------------|----------|
| Fixed assets, net of<br>accumulated depreciation     | \$ 33,496           | \$ 43,348           | (23%)    | \$ 45,060           | (4%)     |
| Other assets   | <u>8,929,819</u>    | <u>8,958,580</u>    | (0%)     | <u>9,592,796</u>    | (7%)     |
| Total assets   | <u>8,963,315</u>    | <u>9,001,928</u>    | (0%)     | <u>9,637,856</u>    | (7%)     |
| Other liabilities                                    | <u>211,036</u>      | <u>160,177</u>      | 32%      | <u>125,612</u>      | 28%      |
| Total liabilities                                    | <u>211,036</u>      | <u>160,177</u>      | 32%      | <u>125,612</u>      | 28%      |
| Investment in capital assets,<br>Net of related debt | 33,496              | 43,348              | (23%)    | 45,060              | (4%)     |
| Undesignated   | <u>8,718,783</u>    | <u>8,798,403</u>    | (1%)     | <u>9,467,184</u>    | (7%)     |
| Total Net Assets                                     | <u>\$ 8,752,279</u> | <u>\$ 8,841,751</u> | (1%)     | <u>\$ 9,512,244</u> | (7%)     |

The Corporation's undesignated funds are, in fact, for specified purposes and programs. The nature of these specifications, however, do not meet the requirements of GASB 45 to be classified as designated in the financial statements.

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Management's Discussion and Analysis - Continued

*The following table summarizes the changes in Operating Income between fiscal years ending June 30, 2011, 2010 and 2009:*

|                           | <u>2011</u>        | <u>2010</u>         | <u>%</u> | <u>2009</u>         | <u>%</u> |
|---------------------------|--------------------|---------------------|----------|---------------------|----------|
| Revenues                  |                    |                     |          |                     |          |
| Administrative fees       | \$ 2,171,449       | \$ 2,158,374        | 1%       | \$ 2,058,475        | 5%       |
| Interest income           | <u>145,451</u>     | <u>127,000</u>      | 15%      | <u>205,701</u>      | (38%)    |
| Total Revenues            | <u>2,316,900</u>   | <u>2,285,374</u>    | 1%       | <u>2,264,176</u>    | 1%       |
| Expenses                  |                    |                     |          |                     |          |
| Personnel expenses        | 522,148            | 487,290             | 7%       | 493,686             | (1%)     |
| Operating expenses        | 317,715            | 314,156             | 1%       | 308,490             | 2%       |
| Financing expenses        | 566,509            | 654,421             | (13%)    | 556,158             | 18%      |
| Contribution to the State | <u>1,000,000</u>   | <u>1,500,000</u>    | (33%)    | <u>1,100,000</u>    | 36%      |
| Total Expenses            | <u>2,406,372</u>   | <u>2,955,867</u>    | (19%)    | <u>2,458,334</u>    | 20%      |
| Change in Net Assets      | \$ <u>(89,472)</u> | \$ <u>(670,493)</u> | 87%      | \$ <u>(194,158)</u> | (245%)   |

**Operating Activities:** The Corporation is limited to providing services only to qualified health care and educational institutions. Therefore, the Corporation anticipates fluctuations in revenues and expenses related to the providing of these services. The Corporation anticipates it will continue to serve a significant role in assisting both health care and educational institutions in constructing and improving their facilities.

The Corporation generates revenue from semi-annual and annual administrative fees based on the outstanding principle amount of the bonds. The Corporation receives interest income on outstanding loans made to eligible institutions and on investments. Interest income on investments accrues to the benefit of the program for which the underlying source of income is designated.



# **RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION**

**(a Component Unit of the State of Rhode Island)**

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

### **CONDUIT DEBT**

The Corporation issued \$210,713,000 of bonds during the fiscal year ending June 30, 2011. Of that amount, approximately \$169,213,000 was for new projects and \$41,500,000 was issued to refund or defease prior bonds.

The following table summarizes the changes in conduit debt for the fiscal years ending June 30, 2011, 2010 and 2009.

|               | <u>2011</u>      | <u>2010</u>      | <u>%</u> | <u>2009</u>      | <u>%</u> |
|---------------|------------------|------------------|----------|------------------|----------|
| Bonds Payable | \$ 2,850,675,216 | \$ 2,744,708,841 | 4%       | \$ 2,600,179,582 | 6%       |

### **CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designated to provide Rhode Island citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Corporation's accountability. If you have any questions about this report or need additional financial information, contact Rhode Island Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903, or visit our website at [www.rihebc.com](http://www.rihebc.com).

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Statements of Net Assets

June 30, 2011 and 2010

### Assets

**Current Assets:**

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Cash and equivalents                | \$ 275,095   | \$ 232,717   |
| Current portion of investments      | 5,619,940    | 5,151,893    |
| Current portion of loans receivable | 451,330      | 436,968      |
| Accounts receivable                 | 24,540       | 49,947       |
| Prepaid expenses                    | 41,477       | 31,982       |
| Accrued interest receivable         | <u>6,550</u> | <u>7,858</u> |

|                             |                         |                         |
|-----------------------------|-------------------------|-------------------------|
| <b>Total Current Assets</b> | <b><u>6,418,932</u></b> | <b><u>5,911,365</u></b> |
|-----------------------------|-------------------------|-------------------------|

**Non-Current Assets:**

|  |               |               |
|--|---------------|---------------|
| Loans receivable, net of current portion | 1,845,887     | 2,297,215     |
| Investments, net of current portion      | 665,000       | 750,000       |
| Capital assets, net                      | <u>33,496</u> | <u>43,348</u> |

|                                 |                         |                         |
|---------------------------------|-------------------------|-------------------------|
| <b>Total Non-Current Assets</b> | <b><u>2,544,383</u></b> | <b><u>3,090,563</u></b> |
|---------------------------------|-------------------------|-------------------------|

|                     |                            |                            |
|---------------------|----------------------------|----------------------------|
| <b>Total Assets</b> | <b><u>\$ 8,963,315</u></b> | <b><u>\$ 9,001,928</u></b> |
|---------------------|----------------------------|----------------------------|

### Liability and Net Assets

**Liability:**

|                  |                   |                   |
|------------------|-------------------|-------------------|
| Accrued expenses | <u>\$ 211,036</u> | <u>\$ 160,177</u> |
|------------------|-------------------|-------------------|

**Net Assets:**

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Invested in capital assets, net | 33,496           | 43,348           |
| Unrestricted                    | <u>8,718,783</u> | <u>8,798,403</u> |

|                         |                            |                            |
|-------------------------|----------------------------|----------------------------|
| <b>Total Net Assets</b> | <b><u>\$ 8,752,279</u></b> | <b><u>\$ 8,841,751</u></b> |
|-------------------------|----------------------------|----------------------------|

*The accompanying notes are an integral part of the financial statements.*

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2011 and 2010

|  |                            |                            |
|--|----------------------------|----------------------------|
| <b>Operating Revenues:</b>               |                            |                            |
| Administrative fees                      | \$ 2,171,449               | \$ 2,158,374               |
| Interest earned on loans receivable      | <u>101,979</u>             | <u>121,661</u>             |
| Total Operating Revenues                 | <u>2,273,428</u>           | <u>2,280,035</u>           |
| <b>Operating Expenses:</b>               |                            |                            |
| Administrative                           | 1,391,342                  | 1,441,686                  |
| Depreciation                             | <u>12,782</u>              | <u>12,381</u>              |
| Total Operating Expenses                 | <u>1,404,124</u>           | <u>1,454,067</u>           |
| <b>Operating Income</b>                  | <u>869,304</u>             | <u>825,968</u>             |
| <b>Non-Operating Revenues (Expenses)</b> |                            |                            |
| Payment to primary government            | (1,000,000)                | (1,500,000)                |
| Loss on sale of assets                   | (2,248)                    | (1,800)                    |
| Net investment income                    | <u>43,472</u>              | <u>5,339</u>               |
| Total Non-Operating Revenues (Expenses)  | <u>(958,776)</u>           | <u>(1,496,461)</u>         |
| <b>Decrease in Net Assets</b>            | <b>(89,472)</b>            | <b>(670,493)</b>           |
| Net Assets, at Beginning of Year         | <u>8,841,751</u>           | <u>9,512,244</u>           |
| <b>Net Assets, at End of Year</b>        | <b><u>\$ 8,752,279</u></b> | <b><u>\$ 8,841,751</u></b> |

*The accompanying notes are an integral part of the financial statements.*

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

|  |                          |                          |
|--|--------------------------|--------------------------|
| <b>Cash Flows from Operating Activities:</b>   |                          |                          |
| Cash received from institutions for administrative fees                                    | \$ 2,196,856             | \$ 2,191,685             |
| Cash received for interest on loans receivable   | 103,287                  | 122,108                  |
| Payment of administrative expenses   | <u>(1,349,978)</u>       | <u>(1,399,928)</u>       |
| Net Cash Provided by Operating Activities  | <u>950,165</u>           | <u>913,865</u>           |
| <b>Cash Flows from Non-Capital Financing Activity:</b>                                     |                          |                          |
| Payment to primary government  | <u>(1,000,000)</u>       | <u>(1,500,000)</u>       |
| <b>Cash Flows from Capital and Related Financing Activity:</b>                             |                          |                          |
| Purchase of fixed assets   | <u>(5,178)</u>           | <u>(12,469)</u>          |
| <b>Cash Flows from Investing Activities:</b>   |                          |                          |
| Purchases of investment securities   | (22,289,010)             | (41,434,971)             |
| Proceeds from sale and maturities of investment securities                                 | 21,905,963               | 41,385,583               |
| Issuance of loans receivable   | -                        | (410,000)                |
| Payments received on loans receivable  | 436,966                  | 894,554                  |
| Net investment income  | <u>43,472</u>            | <u>5,339</u>             |
| Net Cash Provided by Investing Activities  | <u>97,391</u>            | <u>440,505</u>           |
| <b>Net Increase (Decrease) in Cash and Equivalents</b>                                     | <b>42,378</b>            | <b>(158,099)</b>         |
| Cash and Equivalents, Beginning of Year  | <u>232,717</u>           | <u>390,816</u>           |
| <b>Cash and Equivalents, End of Year</b>   | <b><u>\$ 275,095</u></b> | <b><u>\$ 232,717</u></b> |
| <b>Reconciliation of Net Operating Income to Net Cash Applied to Operating Activities:</b> |                          |                          |
| Net Operating Income   | \$ 869,304               | \$ 825,968               |
| Adjustments to reconcile net operating loss to net cash applied to operating activities:   |                          |                          |
| Depreciation   | 12,782                   | 12,381                   |
| (Increase) decrease in assets and liabilities:   |                          |                          |
| Accounts receivable  | 25,407                   | 33,311                   |
| Prepaid expenses   | (9,495)                  | 7,193                    |
| Accrued interest receivable  | 1,308                    | 447                      |
| Accrued liabilities  | <u>50,859</u>            | <u>34,565</u>            |
| Net Cash Provided by Operating Activities  | <u>\$ 950,165</u>        | <u>\$ 913,865</u>        |

*The accompanying notes are an integral part of the financial statements.*

# **RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION**

**(a Component Unit of the State of Rhode Island)**

## **Notes to the Financial Statements**

**June 30, 2011 and 2010**

### Note 1 - Summary of Significant Accounting Policies

#### Organization

Rhode Island Health and Educational Building Corporation (the "Corporation") is a component unit of the State of Rhode Island for financial reporting purposes. Accordingly, the Corporation's financial statements are included in the State of Rhode Island's Annual Financial Report.

#### Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

The Corporation has determined that it functions as a business-type activity as defined by GASB. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis, basic financial statements and required supplementary information.

The principal operating revenues of the Corporation are administrative fees relating to various bonds and notes outstanding and are recognized as revenue as of the periodic billing date. Operating expenses consist predominantly of administrative expenses which are recognized as incurred. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities primarily consist of gains or losses relating to investments or disposals of fixed assets.

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles as practiced in the United States (US GAAP). Governments are also required to follow applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
**(a Component Unit of the State of Rhode Island)**

**Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

Note 1 - **Summary of Significant Accounting Policies - Continued**

*Net Assets*

Resources are classified for accounting purposes into the following two net asset categories:

Invested in capital assets, net: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of the Corporation.

*Cash and Equivalents*

The Corporation has defined cash and equivalents to include cash held at various institutions and all highly liquid investments with maturities of three months or less.

*Investments*

Investments are stated at fair value. The Board of Directors approves all investments of the Corporation. The Board's policy is to invest in securities with an A-1 credit rating or greater and a maturity of less than two years.

*Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Allowances for potential credit losses are determined by considering the financial condition of its customers and other economic factors affecting the customers and their industries. As of the balance sheet date, management is of the opinion that an allowance for doubtful accounts is not necessary.

# **RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION**

**(a Component Unit of the State of Rhode Island)**

## **Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

### Note 1 - **Summary of Significant Accounting Policies - Continued**

#### *Capital Assets*

Capital assets include furniture and fixtures, office equipment and computer equipment. In accordance with the Corporation's policy, a \$1,000 threshold is utilized for capitalizing assets. Capital assets are depreciated on a straight-line basis over their estimated useful life of five years. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

The Corporation does not have collections of historical treasures, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

#### *Compensated Absences*

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is included in accrued expenses at June 30, 2011 and 2010. Upon retirement or termination, employees are compensated for all accumulated unused vacation leave. At June 30, 2011 and 2010, compensated absences totaled \$42,581 and \$45,710, respectively.

#### *Tax Status*

The Corporation is a component unit of the State of Rhode Island and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

#### *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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Reclassifications*

Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation.

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

### Note 2 - Conduit Debt

Since its inception, the Corporation has issued various series of bonds and leases to finance capital expenditures for Rhode Island educational institutions, hospitals, and health care providers. The bonds, notes, and leases are special obligations of the Corporation payable from revenues derived solely from the institution for which the project was financed. The bonds, notes, and leases do not constitute a debt or pledge of faith and credit of the Corporation, or the State of Rhode Island, and accordingly have not been reported in the accompanying financial statements.

At June 30, 2011 and 2010, the bond issues and leases outstanding are as follows:

| <u>Entity</u>                     | <u>Year</u> | <u>Maturity Date</u> | <u>Principal Balance<br/>at June 30, 2011</u> | <u>Principal Balance<br/>at June 30, 2010</u> |
|-----------------------------------|-------------|----------------------|---|---|
| Providence College                | 1989        | 11/01/2012           | \$ 486,305                                    | \$ 760,630                                    |
| Westerly Hospital                 | 1994        | 07/01/2019           | 8,610,000                                     | 9,315,000                                     |
| Johnson & Wales University        | 1996        | 04/01/2026           | 6,630,000                                     | 6,900,000                                     |
| Tockwotton Home                   | 1996        | 08/15/2022           | 3,490,000                                     | 3,685,000                                     |
| Lifespan Obligated Group          | 1996        | 05/15/2026           | 53,305,000                                    | 53,960,000                                    |
| Steere House                      | 1997        | 07/01/2020           | 4,140,000                                     | 4,440,000                                     |
| University of Rhode Island        | 1997        | 09/15/2023           | 1,385,000                                     | 1,460,000                                     |
| Brown University                  | 1998        | 09/01/2028           | -   | 7,740,000                                     |
| Roger Williams University         | 1998        | 11/15/2028           | 29,105,000                                    | 30,390,000                                    |
| Roger Williams General Hospital   | 1998        | 07/01/2028           | 12,655,000                                    | 13,140,000                                    |
| Newport Hospital                  | 1999        | 07/01/2029           | 23,535,000                                    | 24,255,000                                    |
| St. Andrew's School               | 1999        | 12/01/2029           | -   | 7,145,000                                     |
| St. Joseph Health Services        | 1999        | 10/01/2029           | 18,350,000                                    | 18,885,000                                    |
| Johnson & Wales University        | 1999        | 04/01/2029           | 38,345,000                                    | 39,210,000                                    |
| Salve Regina University           | 1999        | 03/15/2029           | 9,650,000                                     | 9,970,000                                     |
| Roger Williams Realty Corporation | 1999        | 08/01/2028           | 6,960,000                                     | 7,155,000                                     |
| Moses Brown School                | 2000        | 03/01/2030           | 7,895,000                                     | 8,190,000                                     |
| Roger Williams University         | 2000        | 11/15/2030           | 12,600,000                                    | 12,950,000                                    |
| Bryant College                    | 2001        | 12/01/2031           | 24,495,000                                    | 25,160,000                                    |
| Portsmouth Abbey School           | 2001        | 10/01/2031           | 6,225,000                                     | 6,455,000                                     |
| Ocean State Assisted Living       | 2001        | 07/01/2031           | 11,200,000                                    | 11,400,000                                    |



**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
(a Component Unit of the State of Rhode Island)

**Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

**Note 2 - Conduit Debt - Continued**

| <u>Entity</u>                     | <u>Year</u> | <u>Maturity Date</u> | <u>Principal Balance<br/>at June 30, 2011</u> | <u>Principal Balance<br/>at June 30, 2010</u> |
|-----------------------------------|-------------|----------------------|---|---|
| Rhode Island School of Design     | 2001        | 06/01/2031           | \$ 27,515,000                                 | \$ 27,575,000                                 |
| Ballou Home                       | 2001        | 12/01/2021           | -   | 1,460,000                                     |
| St. Mary Academy Bay View         | 2001        | 12/01/2031           | 2,730,000                                     | 2,805,000                                     |
| Brown University, Series A & B    | 2001        | 09/01/2032           | 82,340,000                                    | 82,935,000                                    |
| Bryant College                    | 2002        | 06/01/2019           | 8,615,000                                     | 9,485,000                                     |
| Lifespan                          | 2002        | 08/15/2032           | 3,095,000                                     | 4,515,000                                     |
| Salve Regina University           | 2002        | 03/15/2032           | 14,965,000                                    | 15,385,000                                    |
| Board of Governors                | 2002        | 09/15/2022           | 5,930,000                                     | 6,300,000                                     |
| Jewish Seniors Agency of RI       | 2002        | 12/01/2032           | 10,505,000                                    | 10,775,000                                    |
| Paul Cuffee School                | 2002        | 08/01/2032           | 2,605,000                                     | 2,670,000                                     |
| Salve Regina University, Series B | 2002        | 03/15/2020           | 10,925,000                                    | 11,890,000                                    |
| Johnson & Wales University        | 2003        | 04/01/2020           | 26,865,000                                    | 29,965,000                                    |
| Board of Governors, Series A      | 2003        | 09/15/2013           | 1,140,000                                     | 1,490,000                                     |
| Board of Governors, Series B & C  | 2003        | 09/15/2023           | 26,140,000                                    | 27,660,000                                    |
| La Salle Academy                  | 2003        | 07/01/2033           | 5,260,000                                     | 5,475,000                                     |
| International Institute of R.I.   | 2003        | 08/01/2033           | 2,080,000                                     | 2,145,000                                     |
| Providence College, Series A      | 2003        | 11/01/2024           | 52,195,000                                    | 54,295,000                                    |
| St. George's School               | 2003        | 10/01/2033           | 14,360,000                                    | 14,750,000                                    |
| Brown University, Series A & B    | 2003        | 09/01/2043           | 86,705,000                                    | 87,935,000                                    |
| Roger Williams University         | 2003        | 11/15/2033           | 26,635,000                                    | 27,575,000                                    |
| South County Hospital, Series B&C | 2003        | 09/15/2033           | 12,365,000                                    | 12,670,000                                    |
| Memorial Hospital                 | 2003        | 07/01/2019           | 14,080,000                                    | 15,640,000                                    |
| Thundermist Health Center         | 2004        | 02/01/2034           | -   | 4,055,000                                     |
| Pennfield School                  | 2004        | 09/01/2034           | 4,475,000                                     | 4,625,000                                     |
| Brown University                  | 2004        | 09/01/2025           | 18,395,000                                    | 19,280,000                                    |
| R.I. School of Design, Series D   | 2004        | 08/15/2035           | 53,700,000                                    | 54,730,000                                    |
| The Groden Center A & B           | 2004        | 10/01/2029           | 3,780,000                                     | 3,910,000                                     |
| Times <sup>2</sup> , Inc.         | 2004        | 12/15/2024           | 13,720,000                                    | 14,700,000                                    |
| Board of Governors, Series A      | 2004        | 09/15/2024           | 28,325,000                                    | 29,790,000                                    |
| Kent County/Butler Hospitals      | 2004        | 12/29/2010           | -   | 619,486                                       |
| Board of Governors, Series A      | 2005        | 09/15/2020           | 1,985,000                                     | 2,145,000                                     |
| Catholic School Pool Program      | 2005        | 04/01/2035           | 20,340,000                                    | 20,910,000                                    |

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

### Note 2 - Conduit Debt - Continued

| <u>Entity</u>                                     | <u>Year</u> | <u>Maturity Date</u> | <u>Principal Balance<br/>at June 30, 2011</u> | <u>Principal Balance<br/>at June 30, 2010</u> |
|---|-------------|----------------------|---|---|
| Meeting Street School                             | 2005        | 06/01/2035           | \$ 9,985,000                                  | \$ 10,350,000                                 |
| Board of Governors, Series B                      | 2005        | 09/15/2025           | 1,620,000                                     | 1,700,000                                     |
| Paul Cuffee School                                | 2005        | 10/01/2015           | 700,000                                       | 840,000                                       |
| Brown University, Series A                        | 2005        | 05/01/2035           | 85,500,000                                    | 85,500,000                                    |
| Board of Governors, Series C - G                  | 2005        | 09/15/2035           | 77,015,000                                    | 79,390,000                                    |
| St. Joseph Health Services                        | 2005        | 09/28/2012           | 1,870,001                                     | 3,065,983                                     |
| Women and Infants Hospital                        | 2005        | 12/16/2010           | -   | 274,896                                       |
| Roger Williams University                         | 2005        | 11/29/2015           | 1,829,907                                     | 2,196,685                                     |
| Lifespan Obligated Group, Series A                | 2006        | 05/15/2032           | 176,300,000                                   | 183,175,000                                   |
| South County Hospital, Series A                   | 2006        | 09/15/2035           | 38,895,000                                    | 41,595,000                                    |
| Public Schools Pool Program                       | 2006        | 05/15/2023           | 13,715,000                                    | 14,645,000                                    |
| Catholic School Program                           | 2006        | 04/01/2036           | 15,995,000                                    | 16,390,000                                    |
| Kent County Memorial Hospital                     | 2006        | 08/30/2013           | 1,378,086                                     | 1,889,847                                     |
| Providence Public Bldg Authority                  | 2006        | 05/15/2027           | 53,040,000                                    | 55,215,000                                    |
| Roger Williams University, Series B               | 2006        | 11/15/2036           | 16,535,000                                    | 16,875,000                                    |
| Child & Family Services of NC                     | 2006        | 12/01/2036           | 10,630,000                                    | 10,900,000                                    |
| Public School Program, Series A                   | 2007        | 05/15/2027           | 32,785,000                                    | 34,360,000                                    |
| NRI Community Services, Inc.                      | 2007        | 06/01/2037           | 3,075,000                                     | 3,140,000                                     |
| Brown University                                  | 2007        | 09/01/2037           | 90,010,000                                    | 90,010,000                                    |
| Women & Infants Hospital                          | 2007        | 07/18/2012           | 482,742                                       | 787,911                                       |
| Public School Program, Series B                   | 2007        | 05/15/2027           | 17,190,000                                    | 17,975,000                                    |
| CVS - Highlander Charter School                   | 2007        | 09/01/2037           | 3,995,000                                     | 4,135,000                                     |
| Public School Program, Series C                   | 2007        | 05/15/2021           | 11,465,000                                    | 12,130,000                                    |
| Providence Public Bldg Authority,<br>Series A & B | 2007        | 05/15/2028           | 82,220,000                                    | 85,845,000                                    |
| St. George's School                               | 2007        | 12/01/2010           | -   | 4,000,000                                     |
| St. Antoine Residence, Series A                   | 2007        | 11/01/2029           | 8,330,000                                     | 8,620,000                                     |
| Providence Public Bldg Authority,<br>Series C     | 2007        | 05/15/2028           | 69,635,000                                    | 72,370,000                                    |
| Public School Program, Series D                   | 2007        | 11/15/2027           | 4,285,000                                     | 4,450,000                                     |
| Home & Hospice Care of RI                         | 2008        | 02/01/2038           | 10,725,000                                    | 12,340,000                                    |

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

### Note 2 - Conduit Debt - Continued

| <u>Entity</u>                                | <u>Year</u> | <u>Maturity Date</u> | <u>Principal Balance<br/>at June 30, 2011</u> | <u>Principal Balance<br/>at June 30, 2010</u> |
|--|-------------|----------------------|---|---|
| Learning Community Charter School            | 2008        | 02/01/2038           | \$ 3,820,000                                  | \$ 3,894,000                                  |
| Care New England, Series A & B               | 2008        | 09/01/2037           | 74,500,000                                    | 78,035,000                                    |
| R.I. School of Design, Series A & B          | 2008        | 08/15/2036           | 88,305,000                                    | 90,155,000                                    |
| Bryant University                            | 2008        | 06/01/2035           | 49,625,000                                    | 49,990,000                                    |
| Providence College                           | 2008        | 11/01/2036           | 17,360,000                                    | 17,785,000                                    |
| Public School Pool Program                   | 2008        | 05/15/2029           | 85,095,000                                    | 88,285,000                                    |
| Roger Williams University, Series A          | 2008        | 11/15/2024           | 19,830,000                                    | 20,905,000                                    |
| N.E. Institute of Technology                 | 2008        | 03/01/2034           | 14,605,000                                    | 15,210,000                                    |
| Public School Pool Program,<br>Series B      | 2008        | 05/15/2029           | 22,480,000                                    | 23,475,000                                    |
| Roger Williams University,<br>Series B       | 2008        | 11/15/2038           | 38,000,000                                    | 38,000,000                                    |
| Board of Governors, Series A & B             | 2008        | 09/15/2034           | 37,935,000                                    | 37,935,000                                    |
| Public School Pool Program,<br>Series A      | 2009        | 05/15/2024           | 5,570,000                                     | 6,000,000                                     |
| Lifespan                                     | 2009        | 05/15/2039           | 114,985,000                                   | 114,985,000                                   |
| Public School Pool Program,<br>Series B      | 2009        | 05/15/2021           | 780,000                                       | 860,000                                       |
| Public School Pool Program,<br>Series C      | 2009        | 05/15/2029           | 23,180,000                                    | 24,060,000                                    |
| Board of Governors, Series A & B             | 2009        | 09/15/2029           | 28,055,000                                    | 28,520,000                                    |
| Public School Pool Program,<br>Series D      | 2009        | 05/15/2029           | 15,385,000                                    | 15,930,000                                    |
| Kent Country Memorial Hospital               | 2009        | 12/22/2014           | 3,184,696                                     | 4,019,403                                     |
| St. Antoine Residence                        | 2009        | 11/01/2018           | 8,260,000                                     | 9,135,000                                     |
| City of Providence Qualified<br>School Bonds | 2009        | 06/15/2025           | 20,840,000                                    | 22,320,000                                    |
| Brown University, Series A                   | 2009        | 09/01/2039           | 70,795,000                                    | 70,795,000                                    |
| City of Woonsocket, Series E                 | 2009        | 05/15/2034           | 74,000,000                                    | 74,000,000                                    |
| N.E Institute of Technology                  | 2010        | 03/01/2040           | 40,000,000                                    | 40,000,000                                    |
| Public School Revenue Bonds,<br>Series A     | 2010        | 05/15/2027           | 12,575,000                                    | 12,575,000                                    |

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

Note 2 - Conduit Debt - Continued

| <u>Entity</u>   | <u>Year</u> | <u>Maturity Date</u> | <u>Principal Balance<br/>at June 30, 2011</u> | <u>Principal Balance<br/>at June 30, 2010</u> |
|---|-------------|----------------------|---|---|
| Public School Revenue Bonds,<br>Series B              | 2010        | 05/02/2012           | \$ 4,250,000                                  | \$ 4,250,000                                  |
| Board of Governors, Series A                          | 2010        | 09/15/2040           | 24,005,000                                    | 24,005,000                                    |
| Board of Governors, Series B                          | 2010        | 09/15/2040           | 42,695,000                                    | 42,695,000                                    |
| Thundermist Health Center, Series A                   | 2010        | 08/01/2020           | 3,945,479                                     | -   |
| Brown University, Series A                            | 2010        | 07/31/2040           | 5,000,000                                     | -   |
| Public School Revenue Bonds,<br>Series C              | 2010        | 05/15/2026           | 3,550,000                                     | -   |
| Public School Revenue Bonds,<br>Series D              | 2010        | 05/15/2025           | 3,955,000                                     | -   |
| Public School Revenue Bonds,<br>Series E              | 2010        | 05/15/2025           | 7,777,000                                     | -   |
| Public School Revenue Bonds,<br>Series F              | 2010        | 05/15/2029           | 10,635,000                                    | -   |
| Public School Revenue Bonds,<br>Series G              | 2010        | 05/15/2027           | 13,465,000                                    | -   |
| Providence Public Building<br>Authority, Series A & B | 2010        | 05/15/2029           | 21,945,000                                    | -   |
| The Trudeau Center                                    | 2010        | 12/01/2040           | 2,500,000                                     | -   |
| The Providence Community<br>Health Centers            | 2010        | 06/01/2037           | 12,115,000                                    | -   |
| St. George's School                                   | 2010        | 10/01/2035           | 4,000,000                                     | -   |
| St. George's School                                   | 2010        | 12/30/2013           | 86,000  | -   |
| Care New England                                      | 2010        | 12/31/2030           | 12,000,000                                    | -   |
| St. Andrew's School                                   | 2010        | 12/01/2029           | 6,955,000                                     | -   |
| Public Schools Revenue Bonds,<br>Series A             | 2011        | 05/15/2031           | 6,700,000                                     | -   |
| Tockwotton  | 2011        | 12/31/2046           | 41,900,000                                    | -   |
| Roger Williams University                             | 2011        | 11/15/2024           | 26,410,000                                    | -   |
| Public Schools Revenue Bonds<br>Series B & C          | 2011        | 05/15/2031           | 25,585,000                                    | -   |
| Compass School, Series A & C                          | 2011        | 06/28/2027           | 1,500,000                                     | -   |
| Compass School, Series B                              | 2011        | 06/28/2016           | 500,000                                       | -   |
| Total   |             |                      | \$ <u>2,850,675,216</u>                       | \$ <u>2,744,708,841</u>                       |

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
(a Component Unit of the State of Rhode Island)

**Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

Note 3 - **Investments**

At June 30, 2011, the Corporation held the following investments:

| <b><u>Description</u></b>                         | <b><u>Maturity</u></b> | <b><u>Fair Value</u></b> |
|---|------------------------|--------------------------|
| U.S. Treasury Bills                               | December 15, 2011      | \$ 1,989,191             |
| Federal Home Loan Bank                            | September 7, 2011      | 899,946                  |
| Federal Home Loan Bank                            | November 30, 2011      | 1,994,402                |
| City of Central Falls General<br>Obligation Bonds | Various                | 750,000                  |
| Certificates of Deposit                           | Various                | <u>651,401</u>           |
|   |                        | 6,284,940                |
|   | Less: Current Portion  | <u>5,619,940</u>         |
|   | Long-Term Investments  | \$ <u>665,000</u>        |

At June 30, 2010, the Corporation held the following investments:

| <b><u>Description</u></b>                         | <b><u>Maturity</u></b> | <b><u>Fair Value</u></b> |
|---|------------------------|--------------------------|
| U.S. Treasury Bill                                | July 22, 2010          | \$ 699,987               |
| U.S. Treasury Bills                               | December 16, 2010      | 1,968,593                |
| Federal Home Loan Bank                            | July 28, 2010          | 500,000                  |
| Federal Home Loan Bank                            | November 26, 2010      | 999,200                  |
| Federal Home Loan Bank                            | December 1, 2010       | 984,113                  |
| City of Central Falls General<br>Obligation Bonds | Various                | <u>750,000</u>           |
|   |                        | 5,901,893                |
|   | Less: Current Portion  | <u>5,151,893</u>         |
|   | Long-Term Investments  | \$ <u>750,000</u>        |

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
(a Component Unit of the State of Rhode Island)

**Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

Note 3 - **Investments - Continued**

*Interest Rate Risk*

It is the Corporation's policy to limit the length of its investment maturities in order to manage the exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

The Corporation has managed its exposure to credit risk by investing in obligations that are issued by the U.S. Government or implicitly guaranteed by the U.S. Government. The rating of these obligations was reduced to AA+ after June 30, 2011.

The City of Central Falls General Obligation Bonds are rated as Caa1.

*Concentration of Credit Risk*

As a result of its policy to manage credit risk, the Corporation's investments are concentrated in U.S. Government, U.S. Government guaranteed issues, municipal obligations and certificates of deposit.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a financial institution failure, the Corporation's investments may not be returned. The Corporation does not have a formal policy addressing custodial credit risk for investments.

Note 4 - **Net Asset Designations**

The Board of Directors of the Corporation (the "Board") has designated certain unrestricted net assets of the Corporation for the year ended June 30, 2011 and 2010 as follows:

*Self Insurance*

The designation was established to provide for the deductible exclusion for existing Corporation insurance policies. At both June 30, 2011 and 2010, the Board designated net assets of approximately \$1,000,000 for self-insurance.

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**  
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**Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

Note 4 - **Net Asset Designations - Continued**

*Operating Reserves*

This designation was established to provide for expenditures incurred as a result of operating contingencies. At both June 30, 2011 and 2010, the Board designated net assets of approximately \$1,000,000 for operating reserve.

*Financial Assistance Program*

The Board designated approximately \$6,800,000 and \$6,000,000 of net assets for this program at June 30, 2011 and 2010, respectively.

Note 5 - **Cash and Equivalents**

Custodial credit risk is associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the Corporation would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). It is the Corporation's policy to limit its exposure to custodial risk for deposits by maintaining deposit accounts in several institutions in order to maximize coverage by the FDIC. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2011 and 2010, the carrying amount of the Corporation's deposits, which reflect outstanding checks, was \$275,095 and \$232,717, respectively. At June 30, 2011 and 2010, the Corporation had total deposits of \$372,298 and \$267,877, all of which was covered by the FDIC. These bank balances reflect FDIC insurance and guarantee programs in effect during 2011 and 2010.

Under Rhode Island general laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum insure or pledge collateral equal to one hundred percent (100%) of the deposits, which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. At June 30, 2011 and 2010, the Corporation's had no uninsured or uncollateralized deposits.

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

**June 30, 2011 and 2010**

Note 6 - **Loans Receivable**

Loans receivable at year end June 30, are as follows:

|   | <u>2011</u>       | <u>2010</u> |
|---|-------------------|-------------|
| <p>In July 2003, the Corporation entered into a loan agreement with Newport County Community Mental Health Center for \$495,000. This agreement stipulates monthly payments of \$4,851 including interest at 3.31% until maturity in July, 2013.</p>                      | <b>\$ 117,030</b> | \$ 170,405  |
| <p>In February 2004, the Corporation entered into a loan agreement with Harmony Hill School for \$500,000. This agreement stipulates monthly payments of \$5,141 including interest at 4.33% until maturity in February, 2014.</p>  | <b>155,107</b>    | 208,816     |
| <p>In June 2004, the Corporation entered into a loan agreement with Kent County Visiting Nurse Association for \$300,000. This agreement stipulates monthly payments of \$3,141 including interest of 4.72% until maturity in July, 2014.</p>                             | <b>107,961</b>    | 139,739     |
| <p>In July 2009, the Corporation entered into a loan agreement with Northwest Community Health Care for \$410,000. The agreement stipulates monthly payments of \$4,856 including interest at 3.25% until the principal is payable in full at maturity in July, 2017.</p> | <b>321,240</b>    | 368,238     |



# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

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## Notes to the Financial Statements - Continued

**June 30, 2011 and 2010**

Note 6 - Loans Receivable - Continued

|  | <u>2011</u>              | <u>2010</u>       |
|--|--------------------------|-------------------|
| <p>In October 2005, the Corporation entered into loan agreement with the City of East Providence \$525,000. The agreement stipulates varying semi-annual principal payments between \$80,000 and \$85,000 plus interest at 4.583% until maturity in October, 2012.</p> | <b>\$ 165,000</b>        | \$ 245,000        |
| <p>In November 2005, the Corporation entered into a loan agreement with the United Methodist Health Center for \$700,000. The agreement stipulates monthly payments of \$4,879 including interest at 4.40% until maturity in November, 2015.</p>                       | <b>524,730</b>           | 559,362           |
| <p>In May 2006, the Corporation entered into a loan agreement with the Board of Governors for Higher Education for \$800,000. The agreement, stipulates monthly payments of \$8,388 including interest at 4.75% until maturity in May, 2016.</p>                       | <b>440,568</b>           | 518,281           |
| <p>In March 2008, the Corporation entered into a loan agreement with Northwest Community Health Health Care for \$300,000. This agreement stipulates monthly payments of interest only, until the principal is payable in full at maturity in March, 2013.</p>         | <b>300,000</b>           | 300,000           |
| <p>In February 2009, the Corporation entered into a loan agreement with The Providence Center, Inc. for \$300,000. The agreement stipulates monthly payments of \$5,391 including interest at 3.00% until maturity in February, 2014.</p>                              | <b>\$ <u>165,581</u></b> | \$ <u>224,342</u> |

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

### Note 6 - Loans Receivable - Continued

|                            |                     |                     |
|----------------------------|---------------------|---------------------|
| Total Loans Receivable     | \$ 2,297,217        | \$ 2,734,183        |
| Less: Current Portion      | <u>451,330</u>      | <u>436,968</u>      |
| Long-Term Loans Receivable | \$ <u>1,845,887</u> | \$ <u>2,297,215</u> |

### Note 7 - Commitments and Contingencies

Under an Interest Rate Subsidy (the "Subsidy") Program, temporarily discontinued in 2002, the Corporation pledged to subsidize 1% of the interest charges of certain institutions' long-term debt. To fund this commitment the Corporation would deposit the estimated net present value of the Subsidy into a separate bank account. As of June 30, 2011 remaining commitments on existing Subsidies expiring through 2023 aggregate approximately \$283,000.

### Note 8 - Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

|                                 | Estimated<br>lives<br>(in years) | Beginning<br>Balance | Additions         | Retirements       | Reclassifications | Ending<br>Balance |
|---------------------------------|----------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|
| Capital Assets                  |                                  |                      |                   |                   |                   |                   |
| Office Equipment                | 5                                | \$ 20,833            | \$ -              | \$ -              | \$ -              | \$ 20,833         |
| Computer Equipment              | 5                                | 50,970               | 5,178             | (7,771)           | -                 | 48,377            |
| Furniture and Fixtures          | 5                                | <u>127,994</u>       | -                 | -                 | -                 | <u>127,994</u>    |
| Total capital assets            |                                  | <u>199,797</u>       | <u>5,178</u>      | <u>(7,771)</u>    | -                 | <u>197,204</u>    |
| Less: accumulated depreciation: |                                  |                      |                   |                   |                   |                   |
| Office Equipment                |                                  | 13,276               | 2,159             | -                 | -                 | 15,435            |
| Computer Equipment              |                                  | 22,539               | 8,036             | (5,523)           | -                 | 25,052            |
| Furniture and Fixtures          |                                  | <u>120,634</u>       | <u>2,587</u>      | -                 | -                 | <u>123,221</u>    |
| Total accumulated depreciation  |                                  | <u>156,449</u>       | <u>12,782</u>     | <u>(5,523)</u>    | -                 | <u>163,708</u>    |
| Capital Assets, Net             |                                  | \$ <u>43,348</u>     | \$ <u>(7,604)</u> | \$ <u>(2,248)</u> | \$ -              | \$ <u>33,496</u>  |

# RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island)

## Notes to the Financial Statements - Continued

June 30, 2011 and 2010

### Note 8 - Capital Assets - Continued

Capital asset activity for the year ended June 30, 2010 is as follows:

|                                 | Estimated<br>lives<br>(in years) | Beginning<br>Balance | Additions     | Retirements       | Reclassifications | Ending<br>Balance |
|---------------------------------|----------------------------------|----------------------|---------------|-------------------|-------------------|-------------------|
| Capital Assets                  |                                  |                      |               |                   |                   |                   |
| Office Equipment                | 5                                | \$ 20,833            | \$ -          | \$ -              | \$ -              | \$ 20,833         |
| Computer Equipment              | 5                                | 48,488               | 12,469        | (9,987)           | -                 | 50,970            |
| Furniture and Fixtures          | 5                                | <u>127,994</u>       | -             | -                 | -                 | <u>127,994</u>    |
| Total capital assets            |                                  | <u>197,315</u>       | <u>12,469</u> | <u>(9,987)</u>    | <u>-</u>          | <u>199,797</u>    |
| Less: accumulated depreciation: |                                  |                      |               |                   |                   |                   |
| Office Equipment                |                                  | 11,117               | 2,159         | -                 | -                 | 13,276            |
| Computer Equipment              |                                  | 23,091               | 7,635         | (8,187)           | -                 | 22,539            |
| Furniture and Fixtures          |                                  | <u>118,047</u>       | <u>2,587</u>  | -                 | -                 | <u>120,634</u>    |
| Total accumulated depreciation  |                                  | <u>152,255</u>       | <u>12,381</u> | <u>(8,187)</u>    | <u>-</u>          | <u>156,449</u>    |
| Capital Assets, Net             |                                  | <u>\$ 45,060</u>     | <u>\$ 88</u>  | <u>\$ (1,800)</u> | <u>\$ -</u>       | <u>\$ 43,348</u>  |

### Note 9 - Lease Commitment

The Corporation has entered into an operating lease for office space expiring December 31, 2012. Rental expense for the fiscal year ended June 30, 2011 and 2010 was \$107,480 and \$105,830, respectively. Lease agreement payments subsequent to June 30, 2011 are as follows:

| Years Ending<br><u>June 30,</u> |                   |
|---------------------------------|-------------------|
| 2012                            | \$ 109,200        |
| 2013                            | <u>55,200</u>     |
|                                 | <u>\$ 164,400</u> |

# **RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION**

**(a Component Unit of the State of Rhode Island)**

## **Notes to the Financial Statements - Continued**

**June 30, 2011 and 2010**

### Note 10 - **Pension Plan**

The Corporation sponsors and contributes to the Rhode Island Health and Educational Building Corporation 403(b) Retirement Plan (the "Plan"), a defined contribution pension plan operated in accordance with Section 403(b) of the Internal Revenue Code, and administered by the Vanguard Fiduciary Trust Company. The Board established the Plan and maintains the ability to amend the Plan's provisions, including employer contribution rates. All full time employees of the Corporation enter the Plan after six months of service. The Corporation contributes 10% of participants' salaries and employee contributions are optional per the Plan documents. The Corporation's contributions to the Plan totaled \$38,719 and \$36,380 for the fiscal year ended June 30, 2011 and 2010, respectively.

### Note 11 - **Risks and Uncertainties**

The Corporation is involved in various claims and lawsuits, both for and against the Corporation, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlements of such claims and lawsuits would not be material to the Corporation's financial position.

### Note 12 - **Subsequent Events**

In August, 2011, the City of Central Falls declared bankruptcy. In the 2011 session, General Assembly passed legislation to give priority to bond payments as well as provide an intercept with school housing aid. Based on this, management has concluded that the Corporation's investment in bonds issued by Central Falls is collectible and a reserve against it is not necessary.

## **SUPPLEMENTAL INFORMATION**

**Report on Schedule of Travel, Entertainment  
and Educational Expenses**



## **Report on Schedule of Travel, Entertainment and Educational Expenses**

To the Board of Directors of  
Rhode Island Health and Educational Building Corporation

Pursuant to Section 35-7-14 of the General Laws of the State of Rhode Island, each public agency is required to prepare and maintain documentation for all travel, entertainment, and education expenses. The Corporation complies with the "Travel Regulations," issued by the Rhode Island Department of Administration as revised March 1978 and updated February 1986. The Corporation's total travel, entertainment, and educational expenses for the year ended June 30, 2011 were \$3,828. A detailed analysis of travel, entertainment and educational expenses is attached, in compliance with guidelines issued by the Auditor General's office. The information contained above, concerning the Corporation's travel, entertainment and education expenses, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*O'Connor & Drew, P.C.*

**Certified Public Accountants**

September 13, 2011



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION**

To the Board of Governors for Higher Education  
State of Rhode Island

Our report on our audit of the basic financial statements of Rhode Island Health and Educational Building Corporation for the years ended June 30, 2011 and 2010 appears on pages 1 and 2. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained on pages 29-30 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.

*O'Connor & Drew, P.C.*

**Certified Public Accountants**

September 13, 2011



**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**

(a Component Unit of the State of Rhode Island)

**Statements of Net Assets**

**June 30, 2011 and 2010**

|   | <u>Assets</u>                     |                     |
|---|-----------------------------------|---------------------|
| <b>Current Assets:</b>                          |                                   |                     |
| Cash and cash equivalents                       | \$ 275,095                        | \$ 232,717          |
| Investments                                     | 5,619,940                         | 5,151,893           |
| Receivables                                     | 482,420                           | 494,773             |
| (Receivables allowance)                         | -                                 | -                   |
| Restricted assets:                              |                                   |                     |
| Cash and cash equivalents                       | -                                 | -                   |
| Investments                                     | -                                 | -                   |
| Other assets                                    | -                                 | -                   |
| Due from primary government                     | -                                 | -                   |
| Due from other component units                  | -                                 | -                   |
| Due from other governments                      | -                                 | -                   |
| Inventories                                     | -                                 | -                   |
| Other assets                                    | 41,477                            | 31,982              |
| <b>Total Current Assets</b>                     | <u>6,418,932</u>                  | <u>5,911,365</u>    |
| <b>Noncurrent Assets:</b>                       |                                   |                     |
| Investments                                     | 665,000                           | 750,000             |
| Receivables                                     | 1,845,887                         | 2,297,215           |
| (Receivables allowance)                         | -                                 | -                   |
| Restricted assets:                              |                                   |                     |
| Cash and cash equivalents                       | -                                 | -                   |
| Investments                                     | -                                 | -                   |
| Other assets                                    | -                                 | -                   |
| Due from other component units                  | -                                 | -                   |
| Capital assets - nondepreciable                 | -                                 | -                   |
| Capital assets - depreciable (net)              | 33,496                            | 43,348              |
| Other assets, net of amortization               | -                                 | -                   |
| <b>Total Noncurrent Assets</b>                  | <u>2,544,383</u>                  | <u>3,090,563</u>    |
| <b>Total Assets</b>                             | <u>\$ 8,963,315</u>               | <u>\$ 9,001,928</u> |
|   | <u>Liabilities and Net Assets</u> |                     |
| <b>Current Liabilities:</b>                     |                                   |                     |
| Cash overdraft                                  | \$ -                              | \$ -                |
| Accounts payable                                | -                                 | -                   |
| Due to primary government                       | -                                 | -                   |
| Due to other component units                    | -                                 | -                   |
| Due to other governments                        | -                                 | -                   |
| Deferred revenue                                | -                                 | -                   |
| Other liabilities                               | 211,036                           | 160,177             |
| Current portion of long-term debt               | -                                 | -                   |
| <b>Total Current Liabilities</b>                | <u>211,036</u>                    | <u>160,177</u>      |
| <b>Noncurrent Liabilities:</b>                  |                                   |                     |
| Due to primary government                       | -                                 | -                   |
| Due to other governments                        | -                                 | -                   |
| Deferred revenue                                | -                                 | -                   |
| Due to other component units                    | -                                 | -                   |
| Net pension obligation                          | -                                 | -                   |
| Notes payable                                   | -                                 | -                   |
| Loans payable                                   | -                                 | -                   |
| Obligations under capital leases                | -                                 | -                   |
| Other liabilities                               | -                                 | -                   |
| Compensated absences                            | -                                 | -                   |
| Bonds payable                                   | -                                 | -                   |
| <b>Total Noncurrent Liabilities</b>             | <u>-</u>                          | <u>-</u>            |
| <b>Total Liabilities</b>                        | <u>211,036</u>                    | <u>160,177</u>      |
| <b>Net assets</b>                               |                                   |                     |
| Invested in capital assets, net of related debt | 33,496                            | 43,348              |
| Restricted for:                                 |                                   |                     |
| Debt  | -                                 | -                   |
| Other   | -                                 | -                   |
| Other nonexpendable                             | -                                 | -                   |
| Unrestricted                                    | 8,718,783                         | 8,798,403           |
| <b>Total Net Assets</b>                         | <u>\$ 8,752,279</u>               | <u>\$ 8,841,751</u> |

**RHODE ISLAND HEALTH AND EDUCATIONAL  
BUILDING CORPORATION**

(a Component Unit of the State of Rhode Island)

**Statement of Revenues, Expenses and Changes in Net Assets**

**June 30, 2011 and 2010**

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Operating Revenues:</b>                              |                     |                     |
| Charges for services                                    | \$ 2,171,449        | \$ 2,158,374        |
| Interest income on loans                                | 101,979             | 121,661             |
| Interest on investments                                 | -                   | -                   |
| Net increase (decrease) in fair value<br>of investments | -                   | -                   |
| Other operating income                                  | -                   | -                   |
|   | <u>2,273,428</u>    | <u>2,280,035</u>    |
| <b>Total Operating Revenues</b>                         | <b>2,273,428</b>    | <b>2,280,035</b>    |
| <b>Operating Expenses:</b>                              |                     |                     |
| Personal services                                       | 971,388             | 1,038,012           |
| Supplies, materials, and services                       | -                   | -                   |
| Interest expense  | -                   | -                   |
| Grants, scholarships and contract programs              | -                   | -                   |
| Depreciation, depletion and amortization                | 12,782              | 12,381              |
| Other operating expenses                                | 419,954             | 403,674             |
|   | <u>1,404,124</u>    | <u>1,454,067</u>    |
| <b>Total Operating Expenses</b>                         | <b>1,404,124</b>    | <b>1,454,067</b>    |
| <b>Operating Income (Loss)</b>                          | <b>869,304</b>      | <b>825,968</b>      |
| <b>Nonoperating Revenues (Expenses):</b>                |                     |                     |
| Interest revenue  | 42,552              | 8,268               |
| Grants  | -                   | -                   |
| Payments (to) from primary government                   | (1,000,000)         | (1,500,000)         |
| Gain (loss) on sale of property                         | (2,248)             | (1,800)             |
| Interest expense  | -                   | -                   |
| Payments (to) from other component units                | -                   | -                   |
| Net increase (decrease) in fair value<br>of investments | 920                 | (2,929)             |
| Other nonoperating revenue (expenses)                   | -                   | -                   |
|   | <u>(958,776)</u>    | <u>(1,496,461)</u>  |
| <b>Total Nonoperating Revenue (Expenses)</b>            | <b>(958,776)</b>    | <b>(1,496,461)</b>  |
| <b>Income (Loss) Before Contributions</b>               | <b>(89,472)</b>     | <b>(670,493)</b>    |
| Capital contributions                                   | -                   | -                   |
| Special items   | -                   | -                   |
| Extraordinary items                                     | -                   | -                   |
|   | <u>(89,472)</u>     | <u>(670,493)</u>    |
| <b>Change in Net Assets</b>                             | <b>(89,472)</b>     | <b>(670,493)</b>    |
| Total Net Assets, Beginning of Year                     | <u>8,841,751</u>    | <u>9,512,244</u>    |
| <b>Total Net Assets, End of Year</b>                    | <b>\$ 8,752,279</b> | <b>\$ 8,841,751</b> |



**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***

To the Board of Directors of  
Rhode Island Health and Educational Building Corporation:

We have audited the financial statements of Rhode Island Health and Educational Building Corporation as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 13, 2011. 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**

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Directors and management of Rhode Island Health and Educational Building Corporation, and is not intended to be, and should not be used by anyone other than these specified parties.

O'Connell & Dew, P.C.

**Certified Public Accountants**

September 13, 2011