

**RHODE ISLAND HEALTH AND
EDUCATIONAL BUILDING
CORPORATION**

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

JUNE 30, 2014

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Financial Statements and Management's Discussion and Analysis

June 30, 2014 and 2013

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-6
Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-25
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 <i>Government Auditing Standards</i>	26-27



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Rhode Island Health and Educational Building Corporation (the "Corporation") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by United States of America generally accepted accounting principles. 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 the information and express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014 on our consideration of the Corporation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 18, 2014

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

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 years ended June 30, 2014, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which 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 financial 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 Position. All assets and liabilities associated with the operations of the Corporation are included in the Statement of Net Position.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

FINANCIAL HIGHLIGHTS

The Corporation's total assets increased \$839,183 (or 8%)

Cash and investments increased \$1,124,938 (or 13%)

Operating revenues increased \$18,426 (or 1%)

Operating expenses increased \$98,867 (or 7%)

Change in net position decreased \$74,729 (or 8%)

FINANCIAL ANALYSIS OF THE CORPORATION

The following table summarizes the Change in Net Position between fiscal years ending June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Fixed assets, net of accumulated depreciation	\$ 11,264	\$ 14,581	(23%)	\$ 24,349	(40%)
Other assets	<u>11,400,410</u>	<u>10,557,910</u>	8%	<u>9,685,026</u>	9%
Total assets	<u>11,411,674</u>	<u>10,572,491</u>	8%	<u>9,709,375</u>	9%
Other liabilities	<u>194,519</u>	<u>201,392</u>	(3%)	<u>259,059</u>	(22%)
Total liabilities	<u>194,519</u>	<u>201,392</u>	(3%)	<u>259,059</u>	(22%)
Investment in capital assets, Net of related debt	11,264	14,581	(23%)	24,349	(40%)
Undesignated	<u>11,205,891</u>	<u>10,356,518</u>	8%	<u>9,425,967</u>	10%
Total Net Position	\$ <u>11,217,155</u>	\$ <u>10,371,099</u>	8%	\$ <u>9,450,316</u>	10%

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

Management's Discussion and Analysis - Continued

The following table summarizes the changes in Operating Income between fiscal years ending June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Revenues					
Administrative fees	\$ 2,328,565	\$ 2,284,034	2%	\$ 2,178,195	5%
Interest income	<u>92,973</u>	<u>113,366</u>	(18%)	<u>134,486</u>	(16%)
Total Revenues	<u>2,421,538</u>	<u>2,397,400</u>	1%	<u>2,312,681</u>	4%
Expenses					
Personnel expenses	586,848	561,248	5%	542,010	4%
Operating expenses	291,332	270,862	8%	336,106	(19%)
Financing expenses	<u>697,302</u>	<u>644,505</u>	8%	<u>736,528</u>	(12%)
Total Expenses	<u>1,575,482</u>	<u>1,476,615</u>	7%	<u>1,614,644</u>	(9%)
Change in Net Position \$	<u>846,056</u>	<u>920,785</u>	(8%)	<u>698,037</u>	32%

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

Management's Discussion and Analysis - Continued

CONDUIT DEBT

The Corporation issued \$488,760,000 of bonds during the fiscal year ending June 30, 2014. Of that amount, approximately \$323,010,533 was for new projects and \$165,749,467 was issued to refund or defease prior bonds.

The following table summarizes the changes in conduit debt for the fiscal years ending June 30, 2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Bonds Payable	\$ 3,161,538,674	\$ 3,097,079,221	2%	\$ 3,005,229,375	3%

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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Net Position

June 30, 2014 and 2013

Assets

Current Assets:

Cash and equivalents	\$ 332,804	\$ 837,487
Investments	9,232,474	7,517,853
Current portion of loans receivable	308,541	608,671
Accounts receivable	48,089	26,400
Prepaid expenses	40,074	46,346
Accrued interest receivable	<u>6,832</u>	<u>7,779</u>

Total Current Assets	<u>9,968,814</u>	<u>9,044,536</u>
-----------------------------	-------------------------	-------------------------

Non-Current Assets:

Loans receivable, net of current portion	1,021,596	1,018,374
Investments	410,000	495,000
Capital assets, net	<u>11,264</u>	<u>14,581</u>

Total Non-Current Assets	<u>1,442,860</u>	<u>1,527,955</u>
---------------------------------	-------------------------	-------------------------

Total Assets	<u>\$ 11,411,674</u>	<u>\$ 10,572,491</u>
---------------------	-----------------------------	-----------------------------

Liability and Net Position

Liability:

Accrued expenses	<u>\$ 194,519</u>	<u>\$ 201,392</u>
------------------	-------------------	-------------------

Net Position:

Investment in capital assets	11,264	14,581
Unrestricted	<u>11,205,891</u>	<u>10,356,518</u>

Total Net Position	<u>\$ 11,217,155</u>	<u>\$ 10,371,099</u>
---------------------------	-----------------------------	-----------------------------

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2014 and 2013

Operating Revenues:		
Administrative fees	\$ 2,328,565	\$ 2,284,034
Interest earned on loans receivable	<u>47,179</u>	<u>73,284</u>
Total Operating Revenues	<u>2,375,744</u>	<u>2,357,318</u>
Operating Expenses:		
Administrative	1,567,412	1,465,647
Depreciation	<u>8,070</u>	<u>10,968</u>
Total Operating Expenses	<u>1,575,482</u>	<u>1,476,615</u>
Operating Income	800,262	880,703
Non-Operating Revenue		
Net investment income	<u>45,794</u>	<u>40,082</u>
Increase in Net Position	846,056	920,785
Net Position, at Beginning of Year	<u>10,371,099</u>	<u>9,450,314</u>
Net Position, at End of Year	<u>\$ 11,217,155</u>	<u>\$ 10,371,099</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

Cash Flows from Operating Activities:		
Cash received from institutions for administrative fees	\$ 2,306,876	\$ 2,286,245
Cash received for interest on loans receivable	48,126	75,254
Payment of administrative expenses	<u>(1,568,013)</u>	<u>(1,532,342)</u>
 Net Cash Provided by Operating Activities	 <u>786,989</u>	 <u>829,157</u>
Cash Flows from Capital and Related Financing Activity:		
Purchase of fixed assets	<u>(4,753)</u>	<u>(1,200)</u>
Cash Flows from Investing Activities:		
Purchases of investment securities	(14,470,492)	(12,445,744)
Proceeds from sale and maturities of investment securities	12,840,871	10,832,750
Issuance of loans receivable	(350,000)	-
Payments received on loans receivable	646,908	498,795
Net investment income	<u>45,794</u>	<u>40,082</u>
 Net Cash Applied to Investing Activities	 <u>(1,286,919)</u>	 <u>(1,074,117)</u>
 Net Decrease in Cash and Equivalents	 (504,683)	 (246,160)
Cash and Equivalents, Beginning of Year	<u>837,487</u>	<u>1,083,647</u>
Cash and Equivalents, End of Year	<u>\$ 332,804</u>	<u>\$ 837,487</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$ 800,262	\$ 880,703
Adjustments to reconcile net operating income to net cash operating activities:		
Depreciation	8,070	10,968
(Increase) decrease in assets and liabilities:		
Accounts receivable	(21,689)	2,211
Prepaid expenses	6,272	(9,027)
Accrued interest receivable	947	1,970
Accrued liabilities	<u>(6,873)</u>	<u>(57,668)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 786,989</u>	 <u>\$ 829,157</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

Organization

Rhode Island Health and Educational Building Corporation (the "Corporation") is a related organization of the State of Rhode Island (the "State") for financial reporting purposes. The purposes of the Corporation are to aid eligible institutions in the educational and health care fields in Rhode Island gain access to capital, remain proactive in developing cost-effective programs, offering staff assistance, and providing technical resources that benefit these institutions.

In accordance with the standards for component units as promulgated in GASB 61 *The Financial Reporting Entity*, the State of Rhode Island informed the Corporation that it did not meet the revised definition of a component unit. As a result, the Corporation's results of operation and financial position are not incorporated in the State's Annual Financial Report.

The Corporation is a related organization of the State. The State is not financially accountable for the Corporation even though it appoints a voting majority of the organization's governing board.

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's financial statements are prepared in accordance with generally accepted accounting principles as practiced in the United States of America (US GAAP).

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, which 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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies - Continued

Net Position

Resources are classified for accounting purposes into the following categories:

Investment in capital assets: 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 position. Unrestricted net position may be designated by actions of the Corporation.

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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies - Continued

Prepaid Expenses

Prepaid expenses consist of payments related to insurance and deposits for the years ended June 30, 2014 and 2013.

Capital Assets

Capital assets include furniture and fixtures, and office 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 and sick leave. Accrued vacation is included in accrued expenses at June 30, 2014 and 2013. Upon retirement or termination, employees are compensated for all accumulated unused vacation leave. At June 30, 2014 and 2013, compensated absences totaled approximately \$52,000 and \$45,000, respectively.

Tax Status

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

New Governmental Accounting Pronouncements

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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, 2014 and 2013, the bond issues and leases outstanding are as follows:

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
Johnson & Wales University	1996	04/01/2026	\$ -	\$ 6,045,000
Lifespan Obligated Group	1996	05/15/2026	51,115,000	51,885,000
University of Rhode Island	1997	09/15/2023	-	1,225,000
Roger Williams General Hospital	1998	07/01/2028	11,360,000	11,615,000
Newport Hospital	1999	07/01/2029	21,150,000	21,985,000
St. Joseph Health Services	1999	10/01/2029	16,550,000	17,185,000
Johnson & Wales University	1999	04/01/2029	13,100,000	36,480,000
Roger Williams Realty Corporation	1999	08/01/2028	6,310,000	6,540,000
Moses Brown School	2000	03/01/2030	6,950,000	7,275,000
Board of Governors	2002	09/15/2022	-	5,145,000
Paul Cuffee School	2002	08/01/2032	2,390,000	2,465,000
Johnson & Wales University	2003	04/01/2020	-	20,230,000
Board of Governors, Series A	2003	09/15/2013	-	400,000
Board of Governors, Series B & C	2003	09/15/2023	-	22,955,000
La Salle Academy	2003	07/01/2033	-	4,850,000
International Institute of RI	2003	08/01/2033	1,870,000	1,940,000
Providence College, Series A	2003	11/01/2024	-	47,725,000
St. George's School	2003	10/01/2033	12,980,000	13,440,000
Brown University, Series B	2003	09/01/2043	42,550,000	84,120,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
Roger Williams University	2003	11/15/2033	\$ -	\$ 24,660,000
Memorial Hospital	2003	07/01/2019	-	10,955,000
Pennfield School	2004	09/01/2034	4,225,000	4,350,000
Brown University	2004	09/01/2025	15,550,000	16,535,000
The Groden Center, Series A & B	2004	10/01/2029	3,360,000	3,505,000
Times ² , Inc.	2004	12/15/2024	10,780,000	11,760,000
Board of Governors, Series A	2004	09/15/2024	-	25,265,000
Board of Governors, Series A	2005	09/15/2020	1,465,000	1,645,000
Catholic School Pool Program	2005	04/01/2035	18,520,000	19,140,000
Meeting Street School	2005	06/01/2035	8,555,000	9,070,000
Board of Governors, Series B	2005	09/15/2025	1,365,000	1,455,000
Paul Cuffee School	2005	10/01/2015	280,000	420,000
Brown University, Series A	2005	05/01/2035	85,500,000	85,500,000
Board of Governors, Series C - G	2005	09/15/2035	69,300,000	71,975,000
Roger Williams University	2005	11/29/2015	644,230	1,054,215
Lifespan Obligated Group, Series A	2006	05/15/2032	150,105,000	159,830,000
South County Hospital, Series A	2006	09/15/2035	35,915,000	37,280,000
Public Schools Revenue Bonds, Series A	2006	05/15/2023	11,100,000	11,980,000
Catholic School Pool Program	2006	04/01/2036	15,035,000	15,395,000
Kent County Memorial Hospital	2006	08/30/2013	-	287,379
Providence Public Building Authority	2006	05/15/2027	45,955,000	48,430,000
Roger Williams University, Series B	2006	11/15/2036	15,435,000	15,815,000
Child & Family Services of Newport County	2006	12/01/2036	9,760,000	10,060,000
Public Schools Revenue Bonds, Series A	2007	05/15/2027	27,895,000	29,555,000
NRI Community Services, Inc.	2007	06/01/2037	2,865,000	2,940,000
Brown University	2007	09/01/2037	90,010,000	90,010,000
Public Schools Revenue Bonds, Series B	2007	05/15/2027	14,650,000	15,530,000
CVS-Highlander Charter School	2007	09/01/2037	3,720,000	3,815,000
Public Schools Revenue Bonds, Series C	2007	05/15/2021	8,655,000	9,685,000
Providence Public Building Authority, Series A&B	2007	05/15/2028	70,380,000	74,500,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
St. Antoine Residence, Series A	2007	11/01/2029	\$ 7,400,000	\$ 7,725,000
Providence Public Building Authority, Series C	2007	05/15/2028	60,845,000	63,875,000
Public Schools Revenue Bonds, Series D	2007	11/15/2027	3,740,000	3,930,000
Home & Hospice Care of RI	2008	02/01/2038	9,314,500	9,859,500
The Learning Community Charter School	2008	02/01/2038	3,578,000	3,662,000
Care New England, Series A & B	2008	09/01/2037	-	68,845,000
Rhode Island School of Design, Series A & B	2008	08/15/2036	83,625,000	85,030,000
Bryant University	2008	06/01/2035	48,530,000	48,895,000
Providence College	2008	11/01/2036	15,975,000	16,455,000
Public Schools Revenue Bonds, Series A	2008	05/15/2029	74,565,000	78,230,000
Roger Williams University, Series A	2008	11/15/2024	16,365,000	17,560,000
New England Institute of Technology	2008	03/01/2034	12,630,000	13,315,000
Public Schools Revenue Bonds, Series B	2008	05/15/2029	19,100,000	20,205,000
Roger Williams University, Series B	2008	11/15/2038	35,715,000	36,510,000
Board of Governors, Series A & B	2008	09/15/2034	37,935,000	37,935,000
Public Schools Revenue Bonds, Series A	2009	05/15/2024	4,280,000	4,710,000
Lifespan	2009	05/15/2039	114,985,000	114,985,000
Public Schools Revenue Bonds, Series B	2009	05/15/2021	540,000	620,000
Public Schools Revenue Bonds, Series C	2009	05/15/2029	20,385,000	21,345,000
Board of Governors, Series A & B	2009	09/15/2029	26,535,000	27,060,000
Public Schools Revenue Bonds, Series D	2009	05/15/2029	13,645,000	14,250,000
Brown University, Series A	2009	09/01/2039	70,795,000	70,795,000
Public Schools Revenue Bonds, Series E	2009	05/15/2034	68,035,000	70,070,000
St. Antoine Residence, Series A	2009	11/01/2018	5,430,000	6,405,000
Providence Public Building Authority, Series A	2009	06/15/2025	16,400,000	17,880,000
Kent County Memorial Hospital	2009	12/22/2014	481,323	1,871,562
Board of Governors, Series A	2010	09/15/2040	22,585,000	23,070,000
New England Institute of Technology, Series A	2010	03/01/2040	37,725,000	38,510,000
Board of Governors, Series B	2010	09/15/2040	41,285,000	42,000,000
Public Schools Revenue Bonds, Series A	2010	05/15/2027	12,575,000	12,575,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
Public Schools Revenue Bonds, Series B	2010	05/05/2020	\$ 2,825,000	\$ 3,300,000
Thundermist Health Center, Series A	2010	08/01/2020	3,342,458	3,549,208
Public School Revenue Bonds, Series C	2010	05/15/2026	3,235,000	3,375,000
Public School Revenue Bonds, Series D	2010	05/15/2025	3,298,000	3,527,000
Public School Revenue Bonds, Series E	2010	05/15/2025	6,493,000	6,939,000
Public School Revenue Bonds, Series F & G	2010	05/15/2029	24,100,000	24,100,000
Providence Public Building Authority, Series A&B	2010	05/15/2029	21,945,000	21,945,000
J. Arthur Trudeau Memorial Center	2010	12/01/2040	2,360,000	2,410,000
The Providence Community Health Centers, Inc	2010	06/01/2037	11,167,740	11,493,477
St. George's School	2010	10/01/2035	3,580,000	3,700,000
St. George's School	2010	12/30/2013	3,182,500	855,000
Care New England	2010	12/31/2030	10,474,254	10,930,064
St. Andrew's School	2010	12/01/2029	-	6,625,000
Public School Revenue Bonds, Series A	2011	05/15/2031	5,850,000	6,240,000
Tockwotton Home	2011	01/01/2046	41,900,000	41,900,000
Roger Williams University	2011	11/15/2024	21,975,000	23,505,000
Public School Revenue Bonds, Series B	2011	05/15/2031	9,740,000	10,130,000
Public School Revenue Bonds, Series C	2011	05/15/2031	13,095,000	13,870,000
Compass School, Series A - C	2011	06/28/2027	1,685,000	1,790,000
Brown University	2011	09/01/2032	63,170,000	66,950,000
Blackstone Valley Community Health Care, Inc.	2011	01/01/2022	6,182,122	6,361,341
Care New England	2011	08/01/2031	14,469,311	15,090,757
Steere House	2011	09/01/2036	5,099,000	5,193,000
Portsmouth Abbey School	2011	10/01/2031	5,555,000	5,830,000
Ocean State Assisted Living	2011	11/01/2031	10,315,000	10,615,000
Bryant University	2011	12/01/2031	21,660,000	22,470,000
Roger Williams University, Series B	2011	12/15/2029	10,655,000	11,105,000
Tamarisk, Inc.	2011	12/01/2032	9,610,000	9,995,000
Salve Regina University	2011	06/15/2031	27,830,000	29,955,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
Providence College	2012	11/01/2041	\$ 37,560,000	\$ 38,345,000
The Providence Center, Inc.	2012	02/01/2019	-	2,524,800
Public Schools Pool Program, Series A	2012	05/15/2037	34,180,000	35,100,000
Rhode Island School of Design	2012	06/01/2031	27,005,000	27,680,000
Immaculate Conception School	2012	03/16/2032	5,768,750	6,093,750
Rocky Hill School	2012	04/26/2022	3,018,111	3,103,741
Seven Hills Rhode Island	2012	05/31/2042	3,475,000	3,530,000
St. Andrew's School	2012	01/01/2042	-	9,500,000
Brown University	2012	09/01/2022	118,240,000	118,240,000
Blood Center of RI	2012	09/29/2028	8,549,861	9,000,000
Rhode Island School of Design, Series B	2012	08/15/2035	50,350,000	51,815,000
Care New England	2012	09/28/2019	7,943,169	9,319,438
Public Schools Revenue Bonds, Series B	2012	05/15/2032	14,395,000	15,000,000
South County Hospital, Series A & B	2012	09/15/2033	11,365,000	11,710,000
The Kent Center	2012	10/12/2022	4,582,673	4,683,989
Brown University, Series A & B	2012	09/30/2042	1,000,000	1,000,000
Providence College, series B & C	2012	11/01/2024	41,580,000	44,725,000
Bryant University	2013	06/30/2019	5,685,000	6,770,000
Scandanavian Home	2013	04/01/2040	5,000,000	5,000,000
Public Schools Revenue Bonds, Series A	2013	05/15/2033	7,265,000	7,655,000
Public Schools Revenue Bonds, Series B	2013	05/15/2033	12,100,000	12,520,000
Board of Education, Series A - D	2013	09/15/2024	47,200,000	51,405,000
Public Schools Revenue Bonds, Series C & D	2013	05/15/2033	31,355,000	32,870,000
Lifespan	2013	06/14/2020	43,206,462	50,000,000
Seven Hills Rhode Island	2013	06/21/2043	1,599,833	1,655,000
St. Elizabeth Manor	2013	07/31/2043	8,000,000	-
Public Schools Revenue Bonds, Series E	2013	05/15/2028	1,055,000	-
La Salle Academy	2013	09/16/2023	4,458,759	-
Wheeler School, Series A & B	2013	09/18/2028	7,839,293	-
The Providence Center	2013	02/01/2041	2,685,579	-

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principle at 06/30/2014</u>	<u>Outstanding Principle at 06/30/2013</u>
Providence Public Building Authority, Series A	2013	05/15/2024	\$ 64,255,000	\$ -
Roger Williams University, Series A	2013	11/15/2028	21,024,746	-
Public Schools Revenue Bonds, Series H	2013	05/15/2034	11,310,000	-
Care New England	2013	09/01/2033	87,385,000	-
St. Andrew's School	2013	06/01/2043	16,375,000	-
Brown University	2013	09/01/2043	138,715,000	-
Public Schools Revenue Bonds, Series I	2013	11/15/2023	9,635,000	-
Public Schools Revenue Bonds, Series I	2013	11/15/2021	2,115,000	-
Public Schools Revenue Bonds, Series J	2013	05/15/2020	5,335,000	-
Care New England	2014	10/01/2042	42,810,000	-
Bryant University	2014	06/01/2044	47,095,000	-
Portsmouth Abbey School	2014	07/01/2024	2,100,000	-
Public Schools Revenue Bonds, Series A	2014	05/15/2034	9,780,000	-
			<u>\$ 3,161,538,674</u>	<u>\$ 3,097,079,221</u>

Note 3 - Investments

At June 30, 2014, the Corporation held the following investments:

Maturities within fiscal year ending 2014:

U.S. Treasury Bills	\$ 3,249,775
Federal Home Loan Bank	2,944,496
Mutual Funds	1,050,762
City of Central Falls General Obligation Bonds	85,000
Certificates of Deposit	<u>1,902,441</u>
 Total Current Portion	 <u>\$ 9,232,474</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Investments - Continued

Maturities after fiscal year-end 2014:

City of Central Falls General Obligation Bonds	\$ <u>410,000</u>
---	-------------------

At June 30, 2013, the Corporation held the following investments:

Maturities within fiscal year ending 2013:

U.S. Treasury Bills	\$ 1,344,879
Federal Home Loan Bank	3,684,357
Mutual Funds	500,251
City of Central Falls General Obligation Bonds	85,000
Certificates of Deposit	<u>1,903,366</u>

Total Current Portion	\$ <u>7,517,853</u>
-----------------------	---------------------

Maturities after fiscal year-end 2013:

City of Central Falls General Obligation Bonds	\$ <u>495,000</u>
---	-------------------

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 City of Central Falls ("City") General Obligation Bonds are rated as Caa1. The City filed a Chapter 9 bankruptcy petition during fiscal year 2012. The State of Rhode Island has passed legislation to give priority to bond payments and has the ability to intercept aid to mitigate potential bondholder losses. Due to these factors management has determined an allowance for uncollectable general obligation bonds is not necessary at this time.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Investments - Continued

Concentration of Credit Risk

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

Note 4 - Net Position Designations

The Board of Directors of the Corporation (the "Board") has designated certain unrestricted net position of the Corporation for the years ended June 30, 2014 and 2013 as follows:

Self Insurance

The designation was established to provide for the deductible exclusion for existing Corporation insurance policies. The Board designated \$1,000,000 of net position for self insurance at June 30, 2014 and 2013.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. The Board designated \$1,500,000 and \$1,000,000 of net position for operating reserves at June 30, 2014 and 2013, respectively.

Financial Assistance Program

The Board designated \$7,500,000 and \$7,250,000 of net position for the financial assistance program at June 30, 2014 and 2013, respectively.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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, 2014 and 2013, the carrying amount of the Corporation's deposits, which reflect outstanding checks, was \$332,804 and \$837,487, respectively. At June 30, 2014 and 2013, the Corporation had total deposits of \$410,860 and \$885,207, of which \$385,666 and \$485,440, respectively, were covered by the FDIC. These bank balances reflect FDIC insurance and guarantee programs in effect during 2014 and 2013.

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 of the deposits, which are time deposits with maturities greater than sixty 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 of the deposits, regardless of maturity. At June 30, 2014, the Corporation's had no uninsured or uncollateralized deposits.

Note 6 - Loans Receivable

Loans receivable as of the years ended June 30, are as follows:

	<u>2014</u>	<u>2013</u>
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 \$4,452 including interest at 2.02% until maturity in May, 2019.	\$ 249,894	\$ 297,756

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Loans Receivable - Continued

<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>	<p>\$ 3,128</p>	<p>\$ 39,731</p>
<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>	<p>411,224</p>	<p>450,732</p>
<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>	<p>184,051</p>	<p>273,640</p>
<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 which was extended until July, 2013.</p>	<p>-</p>	<p>300,000</p>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - **Loans Receivable - Continued**

	<u>2014</u>	<u>2013</u>
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.	\$ -	\$ 42,645
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 of 3.25% until maturity in July, 2017.	170,737	222,541
In December 2013, the Corporation entered into a loan agreement with Gateway Healthcare, Inc. for \$350,000. The agreement stipulates monthly payments of \$6,162 including interest of 2.18% until maturity in November, 2018.	<u>311,103</u>	-
Total Loans Receivable	1,330,137	1,627,045
Less: Current Portion	<u>308,541</u>	<u>608,671</u>
Long-Term Loans Receivable	\$ <u>1,021,596</u>	\$ <u>1,018,374</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, 2014, remaining commitments on existing Subsidies expiring through 2023 aggregate approximately \$200,416.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital Assets:						
Office Equipment	5	\$ 10,795	\$ 4,753	\$ -	\$ -	\$ 15,548
Computer Equipment	5	45,444	-	-	-	45,444
Furniture and Fixtures	5	<u>129,718</u>	-	-	-	<u>129,718</u>
Total Capital Assets		<u>185,957</u>	<u>4,753</u>	-	-	<u>190,710</u>
Less: Accumulated Depreciation:						
Office Equipment		9,715	1,555	-	-	11,270
Computer Equipment		33,597	5,723	-	-	39,320
Furniture and Fixtures		<u>128,064</u>	<u>792</u>	-	-	<u>128,856</u>
Total Accumulated Depreciation		<u>171,376</u>	<u>8,070</u>	-	-	<u>179,446</u>
Capital Assets, Net		<u>\$ 14,581</u>	<u>\$ (3,317)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,264</u>

Capital asset activity for the year ended June 30, 2013 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital Assets:						
Office Equipment	5	\$ 10,795	\$ -	\$ -	\$ -	\$ 10,795
Computer Equipment	5	44,244	1,200	-	-	45,444
Furniture and Fixtures	5	<u>129,718</u>	-	-	-	<u>129,718</u>
Total Capital Assets		<u>184,757</u>	<u>1,200</u>	-	-	<u>185,957</u>
Less: Accumulated Depreciation:						
Office Equipment		7,556	2,159	-	-	9,715
Computer Equipment		26,872	6,725	-	-	33,597
Furniture and Fixtures		<u>125,980</u>	<u>2,084</u>	-	-	<u>128,064</u>
Total Accumulated Depreciation		<u>160,408</u>	<u>10,968</u>	-	-	<u>171,376</u>
Capital Assets, Net		<u>\$ 24,349</u>	<u>\$ (9,768)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,581</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Lease Commitment

The Corporation entered into a five-year operating lease agreement for office space expiring December 31, 2017. Rental expense for the fiscal years ended June 30, 2014 and 2013 was \$95,160 and \$91,413, respectively. Future minimum lease payments are as follows:

Years Ending <u>June 30,</u>	
2015	\$ 104,400
2016	106,800
2017	109,200
2018	<u>55,200</u>
	<u>\$ 375,600</u>

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 \$41,973 and \$40,770 for the fiscal years ended June 30, 2014 and 2013, respectively.

Note 11 - Subsequent Events

Management has evaluated subsequent events through September 18, 2014, the date for which the financial statements were made available for issuance.

**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***



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*

To the Board of Directors of
Rhode Island Health and Education Building Corporation
Providence, Rhode Island

We have audited, in accordance with the 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, the financial statements of Rhode Island Health and Education Building Corporation (the "Corporation"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Corporation's basic financial statements, and have issued our report thereon dated September 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* 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 a 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 and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 18, 2014