

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

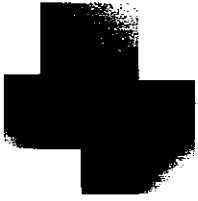
**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002**

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002**

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PRESCOTT CHATELLIER
FONTAINE & WILKINSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION (a component unit of the State of Rhode Island) as of June 30, 2003 and 2002, 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 the 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.

As discussed in Note 1 to the financial statements, during fiscal year 2002, the Corporation changed its financial accounting and reporting to comply with the provisions of Statements No. 34, 37, and 38 of the Governmental Accounting Standards Board.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION, as of June 30, 2003 and 2002, and the results of its operations and its 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 a report dated September 2, 2003 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

TRUST ■ INTEGRITY ■ RESULTS

The Management's Discussion and Analysis on Pages 3 - 5 is not a required part of the financial statements but is supplementary information required by 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 required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Robert Chatterton Fontana & Williams, LLP

September 2, 2003

This section of the Rhode Island Health & Educational Building Corporation's ("the Corporation") annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2003. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

The Corporation's total net assets increased \$467,170 (or 4%)
 Cash & investments increased \$335,919 (or 4%)
 Operating revenues increased \$98,279 (or 8%)
 Operating expenses increase \$53,158 (or 5%)
 Change in net assets decreased \$37,208 (or 7%)

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and the notes to the financial statements, and other supplementary information.

The 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.

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Corporation are included in the Statements of Net Assets.

The Statements of Net Assets report the Corporation's net assets and how they have changed. Net Assets – the difference between the Corporation's assets and liabilities – is one way to measure the Corporation's financial health or position. The increase in the Corporation's net assets during 2003 is an indicator of its strong financial health.

FINANCIAL ANALYSIS OF THE CORPORATION

The following table summarizes the changes in Net Assets between June 30, 2003, 2002 and 2001.

	<u>2003</u>	<u>2002</u>	<u>%</u>	<u>2001</u>	<u>%</u>
Fixed assets, net of accumulated depreciation	123,107	8,146	1,411%	10,100	(19%)
Other Assets	<u>10,829,916</u>	<u>10,487,905</u>	3%	<u>9,881,626</u>	6%
Total Assets	<u>10,953,023</u>	<u>10,496,051</u>	4%	<u>9,891,726</u>	6%

	<u>2003</u>	<u>2002</u>	<u>%</u>	<u>2001</u>	<u>%</u>
Other Liabilities	<u>102,392</u>	<u>112,590</u>	(9%)	<u>12,643</u>	790%
Total Liabilities	<u>102,392</u>	<u>112,590</u>	(9%)	<u>12,643</u>	790%
Invested in capital assets, net of related debt	123,107	8,146	1,411%	10,100	(19%)
Undesignated	<u>10,727,524</u>	<u>10,375,315</u>	3%	<u>9,868,983</u>	5%
Total Net Assets	<u>10,850,631</u>	<u>10,383,461</u>	4%	<u>9,879,083</u>	5%

*Increase in Fixed Assets of 1,411% attributable to purchase of new office furniture. Increase in Other Liabilities of 790% in fiscal year 2002 attributable to \$85,050 in grants payable.

GASB Statement No. 34 guidelines, which provides the format for Management's Discussion and Analysis, do not allow the recognition of funds designated for specific purposes except under certain limited circumstances. However, the Corporation does designate funds for specific purposes and programs, currently in the amount of \$10,750,000.

Operating Activities. The Corporation charges financing fees based on the outstanding principal of the bonds. The Corporation also receives interest income on outstanding loans to various institutions. Interest income on investments accrues to the benefit of the program for which the underlying source of income is designated.

The following table summarizes the changes in Operating Income between fiscal years 2003, 2002 and 2001.

	<u>2003</u>	<u>2002</u>	<u>%</u>	<u>2001</u>	<u>%</u>
Revenues					
Financing Fees	1,270,163	1,171,884	8%	1,058,523	11%
Interest Income	<u>223,598</u>	<u>305,927</u>	(27%)	<u>454,673</u>	(33%)
Total Revenues	<u>1,493,761</u>	<u>1,477,811</u>	1%	<u>1,513,196</u>	(2%)
Expenses					
Personnel Expenses	263,359	251,001	5%	213,721	17%
Operating Expenses	511,781	488,355	5%	172,848	183%
Financing Expenses	<u>251,451</u>	<u>234,077</u>	7%	<u>131,190</u>	78%
Total Expenses	<u>1,026,591</u>	<u>973,433</u>	5%	<u>517,759</u>	88%
Change in Net Assets	<u>467,170</u>	<u>504,378</u>	(7%)	<u>995,437</u>	(49%)

*Decrease in Interest Income of 26% and 33% in fiscal years 2003 and 2002 respectively, is due to lower interest rates for the fiscal years. Increase in Operating Expenses of 183% attributable to \$262,500 of grants awarded during fiscal year 2002. Increase in Financing Expenses of 78% is the result of increased financing activity for the fiscal year.

CONDUIT DEBT

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

The following table summarizes the changes in conduit debt between fiscal years 2003, 2002, and 2001:

	<u>2003</u>	<u>2002</u>	<u>%</u>	<u>2001</u>	<u>%</u>
Bonds Payable	1,304,676,331	1,178,526,861	11%	1,082,868,867	9%

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide Rhode Island citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Corporation's finances and demonstrate the Corporation's accountability. If you have questions about this report or need additional financial information, contact Rhode Island Health & 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 ASSETS
JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 878,333	\$ 521,911
Investments	8,092,232	8,112,735
Current portion of loans receivable	418,243	429,125
Amounts due from Institutions	29,311	14,258
Prepaid expenses	31,296	20,945
Accrued interest receivable	2,695	3,783
Total current assets	<u>9,452,110</u>	<u>9,102,757</u>
Noncurrent assets:		
Loans receivable, net of current portion	1,377,806	1,385,148
Fixed assets, net of accumulated depreciation	123,107	8,146
Total noncurrent assets	<u>1,500,913</u>	<u>1,393,294</u>
Total assets	<u>10,953,023</u>	<u>10,496,051</u>
LIABILITIES:		
Current liabilities:		
Accrued liabilities	62,392	27,540
Contributions payable	40,000	85,050
Total current liabilities	<u>102,392</u>	<u>112,590</u>
NET ASSETS:		
Invested in capital assets, net	123,107	8,146
Unrestricted	10,727,524	10,375,315
Total net assets	<u>\$ 10,850,631</u>	<u>\$ 10,383,461</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Administrative fees	\$ 1,270,163	\$ 1,171,884
Interest earned on loans receivable	98,715	118,527
Total operating revenues	<u>1,368,878</u>	<u>1,290,411</u>
Operating expenses:		
Administrative expense	1,011,669	970,022
Depreciation expense	14,922	3,411
Total operating expenses	<u>1,026,591</u>	<u>973,433</u>
Operating income	342,287	316,978
Non-operating revenue:		
Investment earnings	<u>124,883</u>	<u>187,400</u>
Change in net assets	467,170	504,378
Net assets, beginning of the year	<u>10,383,461</u>	<u>9,879,083</u>
Net assets, end of the year	<u>\$ 10,850,631</u>	<u>\$ 10,383,461</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from Institutions for administrative costs	\$ 1,255,110	\$ 1,164,244
Cash received for interest on loans receivable	99,803	114,744
Payment of administrative expenses	(1,029,642)	(870,477)
Net cash provided by operating activities	<u>325,271</u>	<u>408,511</u>
Cash flows for capital and related financing activities:		
Purchase of fixed assets	(132,460)	(1,999)
Cash flows from investing activities:		
Purchase of investment securities	(26,604,169)	(30,111,951)
Proceeds from sale and maturities of investment securities	26,624,673	29,295,396
Issuance of loans receivable	(440,000)	
Payments received on loans receivable	458,224	422,366
Investment earnings	124,883	187,400
Net cash used for investing activities	<u>163,611</u>	<u>(206,789)</u>
Net increase (decrease) in cash and cash equivalents	356,422	199,723
Cash and cash equivalents, beginning of the year	<u>521,911</u>	<u>322,188</u>
Cash and cash equivalents, end of the year	<u>\$ 878,333</u>	<u>\$ 521,911</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 342,287	\$ 316,978
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,922	3,411
Loss on disposal of fixed asset	2,576	542
Changes in assets and liabilities:		
(Increase) decrease in amount due from Institutions	(15,053)	(7,640)
(Increase) decrease in prepaid expenses	(10,351)	(944)
(Increase) decrease in accrued interest receivable	1,088	(3,783)
Increase (decrease) in accrued liabilities	34,852	14,897
Increase (decrease) in contributions payable	(45,050)	85,050
Total adjustments	<u>(17,016)</u>	<u>91,533</u>
Net cash provided by operating activities	<u>\$ 325,271</u>	<u>\$ 408,511</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Corporation was organized in 1966 as a Rhode Island nonbusiness corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and agency of the State of Rhode Island General Assembly. Under this legislation, it was given powers to assist in providing financing for educational facilities for colleges and universities operating in Rhode Island. In 1968, the Corporation's name was changed to its present name and the Corporation's powers were expanded to enable it to assist hospitals in the State in the financing of health care facilities. Subsequent to 1968, the Corporation's powers have been expanded to provide financing to various types of non-profit organizations for facilities and other capital needs.

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.

The Corporation has not adopted GASB Statement No. 20, paragraph 7, thus the Corporation only applies FASB Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Recently Issued Accounting Standards

These financial statements include the implementation of GASB No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. This new standard provides for significant changes in terminology and inclusion of a management discussion and analysis as supplementary information and other changes.

The Corporation has implemented GASB No. 37 *Basic Financial Statements – and Management's Discussion and Analysis for State and local Governments: Omnibus*, for the year ended June 30, 2002 which provides expanded language regarding GASB No. 34.

The Corporation has implemented GASB No. 38, *Certain Financial Statement Note Disclosures*, for the year ended June 30, 2003 which changes the way the Corporation presents the details to its receivables and payables. The adoption of this Statement did not have a significant impact on the Corporation's financial position or results of operations.

Basis of Presentation

In order to ensure observances of limitations and restrictions placed on the use of resources available to the Corporation, the accounts of the Corporation are maintained in accordance with the principles of "Fund Accounting". This is a procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, and expenses. Net assets are classified in the following two components: invested in capital assets, net of related debt; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by any outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Unrestricted consists of all other net assets not included in the above categories.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting. The main source of the Corporation's revenues are administrative fees relating to the various bonds, note, and lease issues outstanding are recognized as revenue as of the periodic billing date.

Cash and Cash Equivalents

Cash and cash equivalents are with various institutions and are valued at fair value. Cash equivalents are highly liquid investments with an original maturity of three months or less.

Investments

Investments are stated at fair value.

Income Taxes

The Corporation is exempt from federal and state income taxes.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Fixed Assets

The cost of fixed assets used by the Corporation is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 5 years. At June 30, 2003 and 2002, fixed assets consisted of the following:

	<u>2003</u>	<u>2002</u>
Office furniture and equipment.....	\$143,776	\$ 31,216
Less: accumulated depreciation.....	<u>(20,669)</u>	<u>(23,070)</u>
Net fixed assets	<u>\$123,107</u>	<u>\$ 8,146</u>

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to confirm to the 2003 presentation.

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at June 30, 2003</u>	<u>Outstanding Principal at June 30, 2002</u>
South County Hospital	2001	12/14/2006	1,804,979	2,273,234
Brown University A & B.....	2001	09/01/2032	86,535,000	86,990,000
Roger Williams General Hospital	2001	12/17/2006	3,436,437	4,322,050
Bryant College	2002	06/01/2019	17,465,000	19,425,000
Lifespan	2002	08/15/2032	78,000,000	
Care New England, Series A & B	2002	09/01/2032	70,210,000	
Salve Regina University.....	2002	03/15/2032	18,000,000	
Board of Governors	2002	09/15/2022	7,975,000	
Jewish Seniors Agency of Rhode Island	2002	12/01/2032	11,750,000	
Paul Cuffee School.....	2002	08/01/2032	3,000,000	
Salve Regina University, Series B	2002	03/15/2020	17,870,000	
Johnston & Wales University.....	2003	04/01/2020	48,345,000	
Board of Governors, Series A.....	2003	09/15/2013	3,100,000	
Total			<u>\$1,304,676,331</u>	<u>\$1,178,526,861</u>

3. RETAINED EARNINGS DESIGNATIONS

The Board has designated its unrestricted net assets as follows:

Operating Fund

Self Insurance

This designation was established to provide for the deductible exclusion for existing Corporation insurance policies. At June 30, 2003 and 2002, the Board designated net assets for self-insurance was \$1,000,000, respectively.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. At June 30, 2003 and 2002, the Board Designated net assets for operating reserve was \$1,000,000, respectively.

Financial Assistance Program

The Board designated \$8,750,000 and 8,000,000 of net assets for this program at June 30, 2003 and 2002, respectively.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

4. CASH AND CASH INVESTMENTS

Cash

At June 30, 2003 and 2002, the Corporation had deposits of \$1,196,059 and \$1,182,558, respectively, of which \$577,241 and \$383,581, respectively was covered by federal deposit insurance which consisted of demand deposit accounts at various financial institutions. The Corporation's carrying amount of deposits at June 30, 2003 and 2002 was \$878,333 and \$521,911, respectively.

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 eligible 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, 2003 and 2002, the Corporation's uncollateralized deposits with an institution was \$601,092 and \$238,329, respectively, however, none of these deposits were required to be collateralized.

Investments

The Board of Directors of the Corporation approves all investments of the Corporation. The Board's policy has been to invest in securities with a triple "A" credit rating and a maturity less than five years.

The table below categorizes the Corporation's investments so as to provide an indication of the level of market risk and credit risk assumed by the Corporation at year end. Market risk is the risk that the market value of an investment, collateral securing the investment or securities underlying a repurchase agreement will decline. Credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with the custodian of securities or collateral. Category 1 includes insured or registered securities held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered with securities held by the counterparty or by its trust department or agent, but not in the Corporation's name.

At June 30, 2003, the investments held by the Corporation were as follows:

<u>Description</u>	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Treasury Bill.....		\$ 800,447		\$ 800,447
Federal National Mortgage Assoc		5,611,731		5,611,731
Federal Agricultural Mortgage Corp		780,601		780,601
Federal Home Loan Bank.....		599,640		599,640
Total	\$0	\$7,792,419	\$0	7,792,419
Plus: Certificates of Deposit classified as investments.....				<u>299,813</u>
Total investments as reported on balance sheet				<u>\$8,092,232</u>

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

4. CASH AND CASH INVESTMENTS

Investments (Continued)

At June 30, 2002, the investments held by the Corporation were as follows:

<u>Description</u>	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Treasury Bill.....		\$1,126,590		\$1,126,590
Federal Home Loan Bank.....		5,149,051		5,149,051
Federal National Mortgage Association....		1,186,860		1,186,860
Total	\$0	\$7,462,501	\$0	7,462,501
Plus: Certificates of Deposit classified as investments.....				<u>650,234</u>
Total investments as reported on balance sheet.....				<u>\$8,112,735</u>

5. LOANS RECEIVABLE

In December, 1997, the Corporation entered into a loan agreement for \$300,000 with Thundermist Health Associates under the Direct Loan Program. The loan agreement was amended in August 1998 increasing the principal amount by \$100,000. The amended agreement calls for monthly payments of \$3,384.96 plus interest at 6.38%. The outstanding principal balance at June 30, 2003 and 2002 is \$182,787 and \$223,407, respectively.

In January 1999, the Corporation entered into a loan agreement for up to \$750,000 with CHC Enterprise, Inc. under the Direct Loan Program. The agreement stipulates interest only payments at 4.53% from February 1999 through July 1999. From July 1999 through December 1999, principal will be repaid in four installments of \$4,000 plus interest. From December 1999 until the maturity date, principal will be repaid in 49 equal monthly installments of an amount equal to 1/49 of the total amounts loaned plus interest. The outstanding principal balance at June 30, 2003 and 2002 is \$113,006 and \$305,349, respectively.

In April 1999, the Corporation entered into a loan agreement for \$117,000 with Wood River Health Services, Inc. under the Direct Loan Program. The agreement stipulates 120 payments of \$975 plus interest at 5.56%. The outstanding principal balance at June 30, 2003 and 2002 is \$68,247 and \$79,946, respectively.

In February 2000, the Corporation entered into a loan agreement for \$50,000 with Thundermist Health Associates, Inc. under the Direct Loan Program. The agreement stipulates 60 payments of \$963, including interest at 6.17%. The outstanding principal balance at June 30, 2003 and 2002 is \$18,311 and \$28,473, respectively.

In June 2000, the Corporation entered into a loan agreement for \$400,000 with Northwest Community Nursing and Health Service under the Direct Loan Program. The agreement stipulates 120 payments of \$3,506.46 including interest at 6.6%. The outstanding principal balance at June 30, 2003 and 2002 is \$349,728 and \$366,579, respectively.

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

5. LOANS RECEIVABLE (Continued)

In June 2000, the Corporation entered into a loan agreement for \$400,000 with Community Counseling Center, Inc. under the Direct Loan Program. The agreement stipulates 60 payments at \$6,666.67 plus interest at 6.17%. The outstanding principal balance at June 30, 2003 and 2002 is \$160,000 and \$240,000, respectively.

In January 2001, the Corporation entered into a loan agreement with Health Center of South County for \$250,000. The agreement stipulates 120 payments at \$2,083.33 including interest at 6.04%. The outstanding principal balance at June 30, 2003 and 2002 is \$189,583 and \$214,583, respectively.

In June 2001, the Corporation entered into a loan agreement with Neighborhood Health Plan of Rhode Island for \$400,000. The agreement stipulates 84 payments at \$5,723 including interest at 5.35%. The outstanding principal balance at June 30, 2003 and 2002 is \$305,066 and \$355,936, respectively.

In July 2002, the Corporation entered into a loan agreement with VNS Home Health Services of South County for \$100,000. The agreement stipulates 60 payments at \$1,867 including interest at 4.55%. The outstanding principal balance at June 30, 2003 is \$83,325.

In February 2003, the Corporation entered into a loan agreement with VNA of Care New England for \$340,000. The agreement stipulates 84 payments at \$4,687 including interest at 4.25%. The outstanding principal balance at June 30, 2003 is \$325,996.

6. LEASE COMMITMENTS

The Corporation's lease consists principally of a lease for office space. Rental expense for the fiscal years ended June 30, 2003 and 2002 was \$70,879 and \$30,501, respectively. The lease expires in December, 2007. For the years ended June 30, 2003 through 2007, the annual rent will be \$96,000.

The Corporation has an operating lease for office equipment. The lease expense for the fiscal years ended June 30, 2003 and 2002 was \$4,788 and \$3,768, respectively. The future minimum lease payments for the office equipment lease are as follows:

<u>Year</u>	<u>Amount</u>
2004.....	\$ 4,788
2005.....	3,924
2006.....	3,924
2007.....	3,924
2008.....	<u>3,924</u>
Total.....	<u>\$20,484</u>

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

7. PENSION PLAN

The Corporation sponsors and contributes to a defined contribution pension plan administered through a third-party administrator.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the interest earned on those contributions. All full-time employees of the Corporation enter the plan after six months of service. The Plan calls for employer contributions equal to 10% of payroll. Employee contributions are optional.

The Corporation's contributions to the Plan for the fiscal years ended June 30, 2003 and 2002 amounted to \$20,116 and \$19,400, respectively, equal to the required contributions for each year. Employee contributions to the Plan for the fiscal years ended June 30, 2003 and 2002 amounted to \$5,520 and \$2,860, respectively. No pension provision changes occurred during the year that affected the level of contributions to be made by the Corporation.

The Plan held no securities of the Corporation or other related parties during the year or as of the close of the fiscal year.

8. COMMITMENTS AND CONTINGENCIES

The Corporation has pledged to various institutions an Interest Rate Subsidy under its Financial Assistance Program. Upon approval by the Board of Directors, the Corporation will subsidize 1% of the interest charges of an eligible Institution's long-term debt. Upon granting the Interest Rate Subsidy, the Corporation deposits a lump sum of the estimated net present value required for the term of the Subsidy into a separate money market account in order to properly fund the award. As of June 30, 2002, the Board of Directors instituted a moratorium on future interest rate subsidies. As of June 30, 2003, the Interest Rate Subsidies awarded by the Board of Directors are the following:

1% Interest Rate Subsidy to the Community Counseling Center, Inc. Authorized and commenced monthly interest subsidies in December 1995 for a term of 15 years. Board authorized deposit of \$83,710 to cover award.

1% Interest Rate Subsidy to the East Bay Mental Health Center, Inc. Authorized by Board in January 1997 for a term of no greater than 15 years. Board authorized deposit of no more than \$45,000 to cover award.

1% Interest Rate Subsidy to the Urban Collaborative Accelerated Program (UCAP). Authorized by Board in May 1997 for a term of no greater than 15 years. Board authorized deposit of no more than \$100,000 to cover award.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

8. COMMITMENTS AND CONTINGENCIES (Continued)

1% Interest Rate Subsidy to Spurwink. Authorized by the Board in August 1998 for a term of no greater than 15 years. The Board authorized a deposit of no more than \$85,000 to cover the award.

1% Interest Rate Subsidy to Woonsocket Headstart Child Development Associates, Inc. Authorized by the Board in December 1999 for a term of 15 years. The Board authorized a deposit of no more than \$26,000 to cover the award.

1% Interest Rate Subsidy to Cornerstone Adult Services, Inc. Authorized by the Board in April 2001 for a term of 10 years.

1% Interest Rate Subsidy to VNS of Greater Rhode Island. Authorized by the Board in March 2002 for a term of 20 years.

1% Interest Rate Subsidy to International Charter Schools. Authorized by the Board in June 2002 for a term of 5 years.

1% Interest Rate Subsidy to Providence Community Health Center. Authorized by Board in June 2002 for a term of 20 years.

1% Interest Rate Subsidy to New Vision of Newport. Authorized by Board in May 2002 with a cap of \$100,000.

1% Interest Rate Subsidy to Northern RI Council of the Arts. Authorized by Board in May 2002 with a cap of \$100,000.

9. SUBSEQUENT EVENTS

On July 1, 2003, the Corporation issued \$33,950,000 in Higher Education Revenue Refunding Bonds on behalf of the Board of Governors for Higher Education. The bonds bear interest rates ranging from 2.00% to 5.00% and mature in varying amounts from 2004 to 2023.

On July 1, 2003, the Corporation issued \$10,500,000 in Educational Institution Revenue Bonds on behalf of La Salle Academy. The bonds bear interest at a variable rate and mature on July 1, 2033.

On August 1, 2003, the Corporation issued \$2,600,000 in Educational Institution Revenue Bonds on behalf of the International Institute of Rhode Island. The bonds bear interest at a variable rate and mature on August 1, 2033.

In August 2003, the Corporation anticipates issuing \$64,660,000 in Educational Institution Revenue Bonds on behalf of Providence College.

In September 2003, the Corporation anticipates issuing \$17,000,000 in Educational Institution Revenue Bonds on behalf of Providence College.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

9. SUBSEQUENT EVENTS (Continued)

In September 2003, the Board anticipates a loan to Harmony Hill School in the amount of \$500,000. The term of the loan is 10 years at an anticipated interest rate of 4.66%.

In September 2003, the Corporation anticipates issuing \$25,000,000 in Hospital Financing Revenue Bonds on behalf of Memorial Hospital.

In September 2003, the Corporation anticipates issuing \$10,000,000 in Hospital Financing Revenue Bonds on behalf of Newport Hospital.

In September 2003, the Corporation anticipates issuing \$17,750,000 in Educational Institution Revenue Bonds on behalf of St. George's School.

In September 2003, the Corporation anticipates issuing \$75,000,000 in Educational Institution Revenue Bonds on behalf of Brown University.

In September 2003, the Corporation anticipates issuing \$46,000,000 in Hospital Financing Revenue Bonds on behalf of South County Hospital.

In October 2003, the Corporation anticipates issuing \$75,000,000 in Educational Institution Revenue Bonds on behalf of Rhode Island School of Design.

In October 2003, the Corporation anticipates issuing \$32,000,000 in Educational Institution Revenue Bonds on behalf of Roger Williams University.

In November 2003, the Corporation anticipates issuing \$6,000,000 in Health Facilities Revenue Bonds on behalf of Thundermist Health Center.

In November 2003, the Corporation anticipates issuing \$12,000,000 in Hospital Financing Revenue Bonds on behalf of Westerly Hospital.

In July the Corporation closed a loan to Newport County Community Mental Health Center in the amount of \$495,000. The term of the loan is 10 years at an interest rate of 3.31%.

In August the Corporation closed a loan to Northwest Community Nursing and Health Service in the amount of \$286,000. The term of the loan is 6 years at an interest rate of 2.65%.

(CONCLUDED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Wages	\$ 201,760	\$ 194,000
Financial consulting	176,617	126,884
Contributions and subsidies	301,951	335,533
Rent	70,879	30,501
Consultant	10,411	-
Travel, entertainment and education	10,456	10,764
Accounting and audit	19,500	19,500
Insurance	26,148	21,265
Legal fees	74,834	107,193
Employee benefits	25,220	21,429
Pension expense	20,116	19,400
Payroll taxes	15,341	15,227
Miscellaneous	4,891	2,719
Office supplies	11,033	8,713
Printing	298	20,339
Computer related expenses	3,129	1,414
Dues and subscriptions	5,223	5,109
Telephone and internet	9,280	11,810
Parking	6,433	4,433
Postage and delivery	5,843	6,113
Payroll service charge	922	945
Bank service charge	662	649
Maintenance	3,011	3,512
Advertising	3,127	1,106
Temporary services	2,877	394
Utilities	1,707	1,070
<i>Total administrative expenses</i>	<u>\$ 1,011,669</u>	<u>\$ 970,022</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULE OF CASH EQUIVALENTS AND MARKETABLE SECURITIES
JUNE 30, 2003**

<u>Cash Equivalents</u>		<u>Fair Value</u>
Sovereign Money Market		\$ 57,598
Sovereign Money Market		10,383
Fleet Boston Money Market		14,236
Citizens Bank Savings		14,274
Citizens Bank Savings		82,794
Coastway Credit Union Savings		2,526
Sovereign Checking		41,881
Fleet Boston Savings		29,857
Fleet Boston Money Market		30,622
Citizens Bank Checking		594,162
		<hr/>
Total		\$ 878,333
		<hr/>

<u>Par Value</u>	<u>Investments</u>	<u>Fair Value</u>
\$ 796,779	U.S.Treasury Bill 1.06% due July 31,2003	\$ 800,447
297,876	Certificate of deposit 1.43% due July 16, 2003	299,813
599,294	Federal Home Loan Bank 1.121%, due July 23, 2003	599,640
3,607,052	Federal National Mortgage Association 1.121%, due July 23, 2003	3,624,824
1,082,016	Federal National Mortgage Association 1.121%, due July 23, 2003	1,087,347
894,995	Federal National Mortgage Association 1.1%, due July 16, 2003	899,560
780,479	Federal Agricultural Mortgage Corporation .8%, due July 23, 2003	780,601
		<hr/>
Total		\$ 8,092,232
		<hr/>



PRESCOTT CHATELLIER
FONTAINE & WILKINSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

REPORT ON SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES

To the Board of Directors
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 education expenses for the year ended June 30, 2003 was \$10,456. A detailed analysis of travel, entertainment and education 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.

Prescott Chatellier Fontaine & Wilkinson, LLP

September 2, 2003

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES
YEAR ENDED JUNE 30, 2003

National Council Health Facilities Finance Authority
National Association of Higher Education Finance Authorities

Big Sky, Montana - September 11-13, 2002

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
7/11/02	Robert Donovan	Airfare	\$ 1,281.50
7/29/02	Scott O'Malley	Airfare	720.50
8/2/02	NCHFFA/NAHEFA	Registration - RD, SO	850.00
9/24/02	Scott O'Malley	Meals/Lodging/Car Rental	1,586.73
9/19/02	Robert Donovan	Lodging/Car Rental	808.86
Total			<u>\$ 5,247.59</u>

First Southwest Arbitrage Rebate Conference

Boston, MA - October 31- November 1, 2002

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
8/14/02	First Southwest Asset Mgt	Registration- RD, SO	\$ 870.00
11/6/02	Scott O' Malley	Transportation/Parking	37.00
Total			<u>\$ 907.00</u>

National Council Health Facilities Finance Authority
National Association of Higher Education Finance Authorities

Islamorada, Florida - May 7-9, 2003

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
3/28/03	NCHFFA/NAHEFA	Registration -RD, SO	\$ 300.00
4/16/03	Robert Donovan	Airfare	303.00
4/29/03	Scott O'Malley	Airfare	288.50
5/21/03	Scott O'Malley	Meals/Lodging/Car Rental	1,495.53
Total			<u>\$ 2,387.03</u>

Miscellaneous

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
7/30/02	Robert Donovan	Annual Dinner	\$ 293.80
12/16/02	Robert Donovan	December Dinner	698.86
12/16/02	Robert Donovan	Wash DC	653.82
1/2/03	Greater Prov Chamber	Legislative Lunch	120.00
	Miscellaneous		147.90
Total			<u>\$ 1,914.38</u>

Total \$ 10,456.00



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

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

We have audited the financial statements of the Rhode Island Health and Educational Building Corporation, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 2, 2003. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rhode Island Health and Educational Building Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

TRUST ■ INTEGRITY ■ RESULTS

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

Prescott Chutelein Fountain & Wilkinson LLP

September 2, 2003