

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

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

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

INDEPENDENT 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, 2004 and 2003, 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.

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, 2004 and 2003, 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 10, 2004 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.

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.

Prescott Chatellier Fontaine & Williamson, LLP

September 10, 2004

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, 2004. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

The Corporation's total net assets increased \$352,227 (or 3%)
 Cash & investments decreased \$524,333 (or 6%)
 Operating revenues increased \$244,467 (or 19%)
 Operating expenses increased \$334,386 (or 33%)
 Change in net assets decreased \$114,943 (or 25%)

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, 2004, 2003 and 2002.

	<u>2004</u>	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Fixed assets, net of accumulated depreciation	108,704	123,107	(12%)	8,146	1,411%
Other Assets	<u>11,164,653</u>	<u>10,829,916</u>	3%	<u>10,487,905</u>	3%
Total Assets	<u>11,273,357</u>	<u>10,953,023</u>	3%	<u>10,496,051</u>	4%

	<u>2004</u>	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Other Liabilities	<u>70,499</u>	<u>102,392</u>	(31%)	<u>112,590</u>	(9%)
Total Liabilities	<u>70,499</u>	<u>102,392</u>	(31%)	<u>112,590</u>	(9%)
Invested in capital assets, net of related debt	108,704	123,107	(12%)	8,146	1,411%
Undesignated	<u>11,094,154</u>	<u>10,727,524</u>	3%	<u>10,375,315</u>	3%
Total Net Assets	<u>11,202,858</u>	<u>10,850,631</u>	3%	<u>10,383,461</u>	4%

*Increase in Fixed Assets of 1,411% in fiscal year 2003 attributable to purchase of new office furniture.

GASB Statement No. 34 guidelines, which provide 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 \$11,000,000.

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 2004, 2003 and 2002.

	<u>2004</u>	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Revenues					
Financing Fees	1,514,630	1,270,163	19%	1,171,884	8%
Interest Income	<u>198,574</u>	<u>223,598</u>	(11%)	<u>305,927</u>	(27%)
Total Revenues	<u>1,713,204</u>	<u>1,493,761</u>	15%	<u>1,477,811</u>	1%
Expenses					
Personnel Expenses	277,901	263,359	5%	251,001	5%
Operating Expenses	572,189	511,781	12%	488,355	5%
Financing Expenses	<u>510,887</u>	<u>251,451</u>	103%	<u>234,077</u>	7%
Total Expenses	<u>1,360,977</u>	<u>1,026,591</u>	33%	<u>973,433</u>	5%
Change in Net Assets	<u>352,227</u>	<u>467,170</u>	(25%)	<u>504,378</u>	(7%)

*Decrease in Interest Income of 11% and 27% in fiscal years 2004 and 2003 respectively is due to lower interest rates. Increase in Financing Expenses of 103% is due to increase in bond financings and the Corporations increased share of financial consulting expenses.

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 2004, 2003, and 2002:

	<u>2004</u>	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Bonds Payable	1,606,092,010	1,304,676,331	23%	1,178,526,861	11%

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, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 308,778	\$ 878,333
Investments	8,137,454	8,092,232
Current portion of loans receivable	455,500	418,243
Accounts receivable	54,352	29,311
Prepaid expenses	32,248	31,296
Accrued interest receivable	2,580	2,695
Total current assets	<u>8,990,912</u>	<u>9,452,110</u>
Noncurrent assets:		
Loans receivable, net of current portion	2,173,741	1,377,806
Fixed assets, net of accumulated depreciation	108,704	123,107
Total noncurrent assets	<u>2,282,445</u>	<u>1,500,913</u>
Total assets	<u>11,273,357</u>	<u>10,953,023</u>
LIABILITIES:		
Current liabilities:		
Accrued liabilities	21,499	62,392
Contributions payable	49,000	40,000
Total current liabilities	<u>70,499</u>	<u>102,392</u>
NET ASSETS:		
Invested in capital assets, net	108,704	123,107
Unrestricted	<u>11,094,154</u>	<u>10,727,524</u>
Total net assets	<u>\$ 11,202,858</u>	<u>\$ 10,850,631</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, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<i>Operating revenues:</i>		
Administrative fees	\$ 1,514,630	\$ 1,270,163
Interest earned on loans receivable	118,930	98,715
<i>Total operating revenues</i>	<u>1,633,560</u>	<u>1,368,878</u>
<i>Operating expenses:</i>		
Administrative expense	1,331,840	1,011,669
Depreciation expense	29,137	14,922
<i>Total operating expenses</i>	<u>1,360,977</u>	<u>1,026,591</u>
<i>Operating income</i>	272,583	342,287
<i>Non-operating revenue:</i>		
Investment earnings	<u>79,644</u>	124,883
<i>Change in net assets</i>	352,227	467,170
<i>Net assets, beginning of the year</i>	<u>10,850,631</u>	<u>10,383,461</u>
<i>Net assets, end of the year</i>	<u>\$ 11,202,858</u>	<u>\$ 10,850,631</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from Institutions for administrative costs	\$ 1,489,589	\$ 1,255,110
Cash received for interest on loans receivable	119,045	99,803
Payment of administrative expenses	(1,363,615)	(1,029,642)
Net cash provided by operating activities	<u>245,019</u>	<u>325,271</u>
Cash flows for capital and related financing activities:		
Purchase of fixed assets	(15,804)	(132,460)
Cash flows from investing activities:		
Purchase of investment securities	(23,329,212)	(26,604,169)
Proceeds from sale and maturities of investment securities	23,283,990	26,624,673
Issuance of loans receivable	(1,668,040)	(440,000)
Payments received on loans receivable	834,848	458,224
Investment earnings	79,644	124,883
Net cash (used for) provided by investing activities	<u>(798,770)</u>	<u>163,611</u>
Net increase (decrease) in cash and cash equivalents	(569,555)	356,422
Cash and cash equivalents, beginning of the year	<u>878,333</u>	<u>521,911</u>
Cash and cash equivalents, end of the year	<u>\$ 308,778</u>	<u>\$ 878,333</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 272,583	\$ 342,287
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	29,137	14,922
Loss on disposal of fixed asset	1,070	2,576
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(25,041)	(15,053)
(Increase) decrease in prepaid expenses	(952)	(10,351)
(Increase) decrease in accrued interest receivable	115	1,088
Increase (decrease) in accrued liabilities	(40,893)	34,852
Increase (decrease) in contributions payable	9,000	(45,050)
Total adjustments	<u>(27,564)</u>	<u>(17,016)</u>
Net cash provided by operating activities	<u>\$ 245,019</u>	<u>\$ 325,271</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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, as well as for financing the capital needs of municipal school districts.

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

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.

The Corporation has implemented GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units* – an Amendment of GASB Statement No. 14. The adoption of this Statement did not have an effect on the Corporation's financial statements or results of operations.

The Corporation will adopt the following new accounting pronouncements in future years:

- ✓ GASB Statement No. 40 – *Deposits and Investment Risk Disclosures*, effective of the Corporation's fiscal year ending June 30, 2005.
- ✓ GASB Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the Corporation's fiscal year ending June 30, 2006.
- ✓ GASB Statement No. 45 – *Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions*, effective for the Corporation's fiscal year ending June 30, 2008.

The impact of these pronouncements on the Corporation's financial statements has not been determined.

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004 and 2003, fixed assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Office furniture and equipment.....	\$157,438	\$143,776
Less: accumulated depreciation	<u>(48,734)</u>	<u>(20,669)</u>
Net fixed assets	<u>\$108,704</u>	<u>\$123,107</u>

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

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.

2. CONDUIT DEBT OBLIGATIONS

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 bond, notes, and leases do not constitute a debt or pledge of the 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, 2004 and 2003, the bond issues and leases outstanding were as follows:

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at June 30, 2004</u>	<u>Outstanding Principal at June 30, 2003</u>
Brown University	1975	09/01/2005	\$ 310,000	\$ 445,000
Bryant College.....	1983	10/01/2003	0	4,560,000
Providence College.....	1989	11/01/2012	2,968,179	3,466,572
Memorial Hospital	1992	07/01/2012	0	7,255,000
Roger Williams University	1992	11/15/2024	0	13,135,000

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at June 30, 2004</u>	<u>Outstanding Principal at June 30, 2003</u>
Providence College	1993	11/01/2022	0	38,200,000
New England Institute of Technology....	1993	01/01/2004	0	100,891
Board of Governors, series A & B	1993	09/15/2023	964,977	33,272,397
Westerly Hospital	1994	07/01/2019	12,815,000	13,300,000
Landmark Medical Center	1993	10/01/2019	16,205,000	17,150,000
United Methodist Center	1994	11/01/2014	900,000	950,000
New England Institute of Technology....	1995	03/01/2015	8,845,000	9,415,000
Brown University	1995	09/01/2025	1,060,000	22,085,000
Bryant College.....	1995	08/29/2005	0	310,034
Johnson and Wales University	1996	04/01/2026	8,235,000	8,420,000
Rhode Island School of Design	1996	06/01/2026	0	34,340,000
Roger Williams University	1996	11/15/2024	26,520,000	27,210,000
Tockwotton Home	1996	08/15/2022	4,650,000	4,780,000
Lifespan Obligated Group	1996	05/15/2026	194,065,000	198,555,000
South County Hospital	1997	11/15/2026	0	13,605,000
Bishop Hendricken High School.....	1997	04/01/2017	1,605,000	1,690,000
Steere House	1997	07/01/2020	5,955,000	6,165,000
University of Rhode Island	1997	09/15/2023	1,835,000	1,890,000
Salve Regina University	1997	09/18/2007	624,288	780,972
New England Institute of Technology....	1997	01/01/2004	0	80,295
Brown University	1998	09/01/2028	48,615,000	49,605,000
Bryant College.....	1998	06/11/2008	1,415,796	1,730,284
Roger Williams University	1998	11/15/2028	37,025,000	37,985,000
Mount St. Charles Academy	1998	12/01/2018	3,305,000	3,460,000
Roger Williams General Hospital	1998	07/01/2028	17,840,000	18,180,000
Bryant College.....	1998	12/30/2008	2,509,345	3,005,764
Times 2 Incorporated	1998	12/15/2013	2,268,306	2,435,382
Newport Hospital.....	1999	07/01/2029	27,980,000	28,515,000
St. Andrew's School	1999	12/01/2029	8,400,000	8,450,000
St. Joseph's Hospital.....	1999	10/01/2029	21,575,000	21,955,000
Lasalle Academy	1999	03/01/2029	0	2,300,000
Johnson & Wales University	1999	04/01/2029	43,715,000	44,365,000
Roger Williams General Hospital	1999	02/01/2004	0	224,589
Salve Regina University	1999	03/15/2029	11,610,000	11,845,000
Kent County Memorial Hospital.....	1999	05/27/2005	619,942	1,211,575
Memorial Hospital	1999	12/27/2004	114,417	334,466
South County & Westerly Hospitals	1999	12/27/2004	120,250	351,517
St. Antoine Residence, Series A & B	1999	11/15/2029	21,275,000	21,960,000
Board of Governors, Series 1999 A & B	1999	09/15/2030	22,310,000	22,715,000

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at June 30, 2004</u>	<u>Outstanding Principal at June 30, 2003</u>
Roger Williams Realty Corporation.....	1999	08/01/2028	8,020,000	8,145,000
Kent County Memorial Hospital.....	2000	06/29/2007	1,590,828	2,061,866
Moses Brown School	2000	03/01/2030	9,765,000	10,000,000
St. George's School	2000	09/01/2030	0	11,750,000
Board of Governors, Series A & B	2000	09/15/2030	43,420,000	43,515,000
Roger Williams University.....	2000	11/15/2030	14,745,000	15,000,000
Roger Williams General Hospital.....	2000	10/13/2007	1,364,813	1,710,760
Bryant College.....	2001	12/01/2031	28,625,000	29,125,000
Providence College.....	2001	06/29/2006	1,449,468	2,130,551
South County Hospital.....	2001	12/14/2006	1,316,382	1,804,979
Roger Williams General Hospital.....	2001	12/17/2006	2,509,678	3,436,437
Ocean State Assisted Living	2001	07/01/2031	12,450,000	12,450,000
Portsmouth Abbey School.....	2001	10/01/2031	15,000,000	15,000,000
Westerly Hospital	2001	07/01/2031	5,500,000	5,500,000
Rhode Island School of Design.....	2001	06/01/2031	27,890,000	27,890,000
Ballou Home.....	2001	12/01/2021	1,930,000	2,000,000
St. Mary Academy/Bay View	2001	12/01/2031	3,490,000	3,790,000
Brown University A & B	2001	09/01/2032	86,070,000	86,535,000
Care New England	2001	11/21/2007	4,205,341	5,327,000
Bryant College.....	2002	06/01/2019	15,425,000	17,465,000
Lifespan.....	2002	08/15/2032	76,950,000	78,000,000
Care New England, Series A & B.....	2002	09/01/2032	68,050,000	70,210,000
Salve Regina University, Series B.....	2002	03/15/2020	17,080,000	17,870,000
Board of Governors.....	2002	09/15/2022	7,975,000	7,975,000
Jewish Seniors Agency of Rhode Island	2002	12/01/2032	11,750,000	11,750,000
Paul Cuffee School	2002	08/01/2032	3,000,000	3,000,000
Salve Regina University, Series A.....	2002	03/15/2032	17,655,000	18,000,000
Board of Governors, Series A	2003	09/15/2013	3,100,000	3,100,000
Board of Governors, Series B & C.....	2003	09/15/2020	33,950,000	0
Johnson & Wales University	2003	04/01/2020	45,960,000	48,345,000
South County Hospital, Series A.....	2003	09/15/2033	32,540,000	0
South County Hospital, Series B.....	2003	09/15/2033	7,655,000	0
South County Hospital, Series C.....	2003	09/15/2033	6,370,000	0
Memorial Hospital	2003	07/01/2019	25,000,000	0
Roger Williams University	2003	11/15/2033	32,000,000	0
St. George's School	2003	10/01/2033	18,000,000	0
Intl. Institute of RI	2003	08/01/2033	2,445,000	0
Lasalle School Academy.....	2003	07/01/2033	10,500,000	0
Brown University, Series A.....	2003	09/01/2043	46,200,000	0
Brown University, Series B	2003	09/01/2043	45,225,000	0
Providence College, Series A	2003	11/01/2024	65,495,000	0
Providence College, Series B	2003	11/01/2013	17,425,000	0
Thundermist Health Center.....	2004	02/01/2034	6,300,000	0
Newport Hospital.....	2004	03/01/2014	10,000,000	0
Pennfield School	2004	09/01/2034	5,000,000	0

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at June 30, 2004</u>	<u>Outstanding Principal at June 30, 2003</u>
Brown University	2004	09/01/2025	22,835,000	0
Rhode Island School of Design, Series A	2004	08/15/2034	28,500,000	0
Rhode Island School of Design, Series B	2004	08/15/2034	27,000,000	0
Rhode Island School of Design, Series C	2004	08/15/2011	10,675,000	0
Rhode Island School of Design, Series D	2004	08/15/2031	58,435,000	0
Total			<u>\$1,606,092,010</u>	<u>1,304,676,331</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, 2004 and 2003, the Board designated net assets for self-insurance was \$1,000,000.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. At June 30, 2004 and 2003, the Board Designated net assets for operating reserve was \$1,000,000.

Financial Assistance Program

The Board designated \$9,000,000 and \$8,750,000 of net assets for this program at June 30, 2004 and 2003, respectively.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

4. CASH AND CASH INVESTMENTS

Cash

At June 30, 2004 and 2003, the Corporation had deposits of \$316,229 and \$1,196,059, respectively, of which \$269,640 and \$577,241, 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, 2004 and 2003 was \$308,778 and \$878,333, 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, 2004 and 2003, the Corporation's uninsured and uncollateralized deposits with an institution was \$46,589 and \$618,818, 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, 2004, 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		\$1,003,066		\$1,003,066
Federal Home Loan Mortgage Corp.		989,478		989,478
Federal Home Loan Bank.....		550,829		550,829
Federal National Mortgage Association		5,594,081		5,594,081
Total	\$0	\$8,137,454	\$0	8,137,454

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

4. CASH AND CASH INVESTMENTS (Continued)

Investments (Continued)

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>

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, 2004 and 2003 is \$142,168 and \$182,787, 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, 2004 and 2003 is \$-0- and \$113,006, 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, 2004 and 2003 is \$56,547 and \$68,247, 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, 2004 and 2003 is \$7,539 and \$18,311, 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 original agreement stipulates 120 payments of \$3,506 including interest at 6.6%. The agreement was amended in August 2003, requiring a 72-month remaining amortization period, a new interest rate of 2.65% and monthly payments of \$4,300.75. The outstanding principal balance at June 30, 2004 and 2003 is \$-0- and \$349,728, respectively.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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, 2004 and 2003 is \$80,000 and \$160,000, respectively.

In January 2001, the Corporation entered into a loan agreement with Health Center of South County for \$250,000. The agreement stipulates 84 payments at \$2,083.33 plus interest at 6.04%. The outstanding principal balance at June 30, 2004 and 2003 is \$164,583 and \$189,583, respectively.

In June 2001, the Corporation entered into a loan agreement with Neighborhood Health Plan of Rhode Island for \$400,000. The original agreement stipulated by payments at \$5,723 including interest at 5.35%. This agreement was amended in June 2004 to provide for an additional advance of funds by the Corporation. The revised agreement calls for 56 monthly payments of \$6,457, including interest at 2.87%. The outstanding principal balance at June 30, 2004 and 2003 is \$338,040 and \$305,066, 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, 2004 and 2003 is \$65,941 and \$83,325, respectively.

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, 2004 and 2003 is \$282,776 and \$325,996, respectively.

In February 2004, the Corporation entered into a loan agreement with Harmony Hill School for \$500,000. This agreement calls for 120 monthly payments of \$5,141, including interest at 4.33%. The outstanding balance at June 30, 2004 was \$486,580.

In August 2003, the Corporation entered into a loan agreement with Northwest Community Health Services for \$286,000. This agreement calls for 72 monthly payments of \$4,301, including interest at 2.65%. The outstanding principal balance at June 30, 2004 was \$248,942.

In July 2003, the Corporation entered into a loan agreement with Newport County Community Mental Health Center for \$495,000. This agreement calls for 120 monthly payments of \$4,851 including interest at 3.31%. The outstanding principal balance at June 30, 2004 was \$456,126.

In June of 2004, the Corporation entered into a loan agreement with Kent County Visiting Nurse Association for \$300,000. This agreement calls for 120 monthly payments of \$3,141 including interest at 4.72%. The outstanding principal balance at June 30, 2004 was \$300,000.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

6. LEASE COMMITMENT

The Corporation has entered into an operating lease for office space. Rental expense for the fiscal years ended June 30, 2004 and 2003 was \$100,156 and \$70,879, respectively. The lease expires in December, 2007. For the years ended June 30, 2005 through 2007, the annual base rent will be \$96,000.

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, 2004 and 2003 amounted to \$20,943 and \$20,116, respectively, equal to the required contributions for each year. Employee contributions to the Plan for the fiscal years ended June 30, 2004 and 2003 amounted to \$5,980 and \$5,520, 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.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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, 2004, 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.

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.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

9. SUBSEQUENT EVENTS

On July 22, 2004, the Corporation closed a loan to Northwest Community Nursing and Health Service in the amount of \$400,000. The term of the loan is 5 years at an interest rate of 3.98%.

On August 15, 2004, the Corporation issued \$17,525,000 in Higher Education Facility Revenue Bonds on behalf of New England Institute of Technology. The bonds bear interest at a variable rate and mature on March 1, 2034.

In November 2004, The Corporation anticipates issuing \$66,000,000 in Educational Institute Revenue Bonds on behalf of the Board of Governors.

In October 2004, the Corporation anticipates issuing \$17,375,000 in Educational Institution Revenue Bonds on behalf of Times Square Academy.

In October 2004, the Corporation anticipates issuing \$4,400,000 in Educational Institution Revenue Bonds on behalf of the Groden Center/Kingston Academy.

(CONCLUDED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Wages	\$ 209,430	\$ 201,760
Financial consulting	386,819	176,617
Contributions and subsidies	327,514	301,951
Rent	100,156	70,879
Consultant	10,000	10,411
Travel, entertainment and education	8,500	10,456
Accounting and audit	18,900	19,500
Insurance	28,661	26,148
Legal fees	124,068	74,834
Employee benefits	30,546	25,220
Pension expense	20,943	20,116
Payroll taxes	15,914	15,341
Miscellaneous	4,121	4,891
Office supplies	8,010	11,033
Printing	-	298
Computer related expenses	5,009	3,129
Dues and subscriptions	4,704	5,223
Telephone and internet	5,132	9,280
Parking	7,678	6,433
Postage and delivery	3,957	5,843
Payroll service charge	1,067	922
Bank service charge	532	662
Maintenance	1,325	3,011
Advertising	3,726	3,127
Temporary services	3,713	2,877
Utilities	1,415	1,707
<i>Total administrative expenses</i>	<u>\$ 1,331,840</u>	<u>\$ 1,011,669</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

SCHEDULE OF CASH EQUIVALENTS AND MARKETABLE SECURITIES

JUNE 30, 2004

<u>Cash Equivalents</u>	<u>Value</u>
Sovereign Money Market	\$ 15,215
Sovereign Money Market	58,061
Fleet Boston Money Market	14,545
Citizens Bank Savings	15,570
Citizens Bank Savings	66,040
Coastway Credit Union Savings	2,539
Sovereign Checking	52,437
Fleet Boston Savings	52,555
Citizens Bank Checking	31,816
	<hr/>
Total	<u>\$ 308,778</u>

<u>Investments</u>	<u>Market Value</u>
U.S.Treasury Bill due July 29, 2004	\$ 1,003,066
Federal Home Loan Mortgage Corp due July 20, 2004	989,478
Federal Home Loan Banks due July 21, 2004	550,829
Federal National Mortgage Association due July 21, 2004	4,496,850
Federal National Mortgage Association due July 21, 2004	1,097,231
	<hr/>
Total	<u>\$ 8,137,454</u>



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

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

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, 2004 was \$8,500. 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 10, 2004

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES
YEAR ENDED JUNE 30, 2004**

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

Boston, Massachusetts - September 10-12, 2003

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
07/21/03	NCHFFA/NAHEFA	Registration - RD, SO	\$ 850.00
09/15/03	Scott O'Malley	Lodging	672.88
09/18/03	Robert Donovan	Lodging	607.25
Total			<u>\$ 2,130.13</u>

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

Sedona, Arizona - April 14-16, 2004

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
03/08/04	NCHFFA/NAHEFA	Registration -RD, SO	\$ 700.00
04/01/04	Scott O'Malley	Airfare	366.80
05/05/04	Scott O'Malley	Meals/Lodging/Car Rental	1,310.56
05/11/04	Robert Donovan	Airfare/Meals/Lodging/Car Rental	1,824.20
Total			<u>\$ 4,201.56</u>

Miscellaneous

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
09/15/03	Robert Donovan	Board Dinner	\$ 783.86
12/22/03	Robert Donovan	Annual Dinner	630.50
01/07/04	Greater Prov Chamber	Legislative Lunch	120.00
06/02/04	Greater Prov Chamber	Congressional Lunch	120.00
06/10/04	Robert Donovan	Washington, DC (IRS)	379.30
	Miscellaneous		135.00
Total			<u>\$ 2,168.66</u>

Total \$ 8,500.35



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

**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, 2004, and have issued our report thereon dated September 10, 2004. 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.

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.

Russell Chatterlain Fortuin & Wilkinson, LLP

September 10, 2004