

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

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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, 2005 and 2004, 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, 2005 and 2004, 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 August 29, 2005 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 of Wilkinson, LLP

August 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, 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 2005 is an indicator of its strong financial health.

FINANCIAL HIGHLIGHTS

The Corporation's total net assets increased \$748,915 (or 7%)
Cash & investments increased \$782,589 (or 9%)
Operating revenues increased \$171,604 (or 11%)
Operating expenses decreased \$141,117 (or 10%)
Change in net assets increased \$396,689 (or 113%)

FINANCIAL ANALYSIS OF THE CORPORATION

The following table summarizes the changes in Net Assets between June 30, 2005, 2004 and 2003.

	<u>2005</u>	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Fixed assets, net of accumulated depreciation	87,802	108,704	(19%)	123,107	(12 %)
Other Assets	<u>11,994,265</u>	<u>11,164,653</u>	7%	<u>10,829,916</u>	3%
Total Assets	<u>12,082,067</u>	<u>11,273,357</u>	7%	<u>10,953,023</u>	3%

	<u>2005</u>	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Other Liabilities	<u>130,294</u>	<u>70,499</u>	85%	<u>102,392</u>	(31%)
Total Liabilities	<u>130,294</u>	<u>70,499</u>	85%	<u>102,392</u>	(31%)
Invested in capital assets, net of related debt	87,802	108,704	(19%)	123,107	(12%)
Undesignated	<u>11,863,971</u>	<u>11,094,154</u>	7%	<u>10,727,524</u>	3%
Total Net Assets	<u>11,951,773</u>	<u>11,202,858</u>	7%	<u>10,850,631</u>	3%

The increase in net assets for the year ended June 30, 2005 is primarily attributed to a decrease in financing expenses. Financing expenses are directly related to the services provided by the Corporation and fluctuate based on the volume of activity determined by client institutions. The increase in other liabilities for the year ended June 30, 2005 is attributable to increased accrued expenses.

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 \$11,650,000.

The following table summarizes the changes in Operating Income between fiscal years 2005, 2004 and 2003.

	<u>2005</u>	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Revenues					
Financing Fees	1,686,234	1,514,630	11%	1,270,163	19%
Interest Income	<u>282,542</u>	<u>198,574</u>	42%	<u>223,598</u>	(11%)
Total Revenues	<u>1,968,776</u>	<u>1,713,204</u>	15%	<u>1,493,761</u>	15%
Expenses					
Personnel Expenses	293,739	277,901	6%	263,359	5%
Operating Expenses	572,187	572,189	0%	511,781	12%
Financing Expenses	<u>353,934</u>	<u>510,887</u>	(31%)	<u>251,451</u>	103%
Total Expenses	<u>1,219,860</u>	<u>1,360,977</u>	(10%)	<u>1,026,591</u>	33%
Change in Net Assets	<u>748,916</u>	<u>352,227</u>	113%	<u>467,170</u>	(25%)

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

The Corporation's revenues consist of financing fees which are 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.

Financing fee revenues increased for the years ended June 30, 2005 and 2004 due to increases in bonds outstanding. Financing fee revenue fluctuates based on the volume of services provided to client institutions. The increase in interest income for the year ended June 30, 2005 is due to the rise in interest rates over the period. The increases in personnel expenses for the years ended June 30, 2005 and 2004 are due to the increasing costs of providing employee benefits. Operating expenses have remained relative level over the years ended June 30, 2005 and 2004, reflective of the Corporation's sound financial management. The decrease and increase in financing expenses for the year ended June 30, 2005 and 2004 respectively is due to changes in the level of financing activity. Financing expenses fluctuate based on the volume of services provided to client institutions.

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 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Bonds Payable	1,703,029,871	1,606,092,010	6%	1,304,676,331	23%

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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 303,233	\$ 308,778
Investments	8,925,589	8,137,454
Current portion of loans receivable	511,575	455,500
Accounts receivable	2,753	54,352
Prepaid expenses	24,018	32,248
Accrued interest receivable	6,771	2,580
Total current assets	<u>9,773,939</u>	<u>8,990,912</u>
Noncurrent assets:		
Loans receivable, net of current portion	2,220,326	2,173,741
Fixed assets, net of accumulated depreciation	87,802	108,704
Total noncurrent assets	<u>2,308,128</u>	<u>2,282,445</u>
Total assets	<u>12,082,067</u>	<u>11,273,357</u>
LIABILITIES:		
Current liabilities:		
Accrued liabilities	58,276	21,499
Contributions payable	72,018	49,000
Total current liabilities	<u>130,294</u>	<u>70,499</u>
NET ASSETS:		
Invested in capital assets, net	87,802	108,704
Unrestricted	11,863,971	11,094,154
Total net assets	<u>\$ 11,951,773</u>	<u>\$ 11,202,858</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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Administrative fees	\$ 1,686,234	\$ 1,514,630
Interest earned on loans receivable	113,679	118,930
Total operating revenues	<u>1,799,913</u>	<u>1,633,560</u>
Operating expenses:		
Administrative expense	1,189,191	1,331,840
Depreciation expense	30,669	29,137
Total operating expenses	<u>1,219,860</u>	<u>1,360,977</u>
Operating income	580,053	272,583
Non-operating revenue:		
Investment earnings	<u>168,862</u>	<u>79,644</u>
Change in net assets	748,915	352,227
Net assets, beginning of the year	<u>11,202,858</u>	<u>10,850,631</u>
Net assets, end of the year	<u>\$ 11,951,773</u>	<u>\$ 11,202,858</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from Institutions for administrative costs	\$ 1,737,833	\$ 1,489,589
Cash received for interest on loans receivable	109,488	119,045
Payment of administrative expenses	(1,117,531)	(1,363,615)
Net cash provided by operating activities	<u>729,790</u>	<u>245,019</u>
Cash flows for capital and related financing activities:		
Purchase of fixed assets	(13,403)	(15,804)
Cash flows from investing activities:		
Purchase of investment securities	(27,147,153)	(23,329,212)
Proceeds from sale and maturities of investment securities	26,359,019	23,283,990
Issuance of loans receivable	(538,057)	(1,668,040)
Payments received on loans receivable	435,397	834,848
Investment earnings	168,862	79,644
Net cash (used for) provided by investing activities	<u>(721,932)</u>	<u>(798,770)</u>
Net increase (decrease) in cash and cash equivalents	(5,545)	(569,555)
Cash and cash equivalents, beginning of the year	<u>308,778</u>	<u>878,333</u>
Cash and cash equivalents, end of the year	<u>\$ 303,233</u>	<u>\$ 308,778</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 580,053	\$ 272,583
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,669	29,137
Loss on disposal of fixed asset	3,635	1,070
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	51,599	(25,041)
(Increase) decrease in prepaid expenses	8,230	(952)
(Increase) decrease in accrued interest receivable	(4,191)	115
Increase (decrease) in accrued liabilities	36,777	(40,893)
Increase (decrease) in contributions payable	23,018	9,000
Total adjustments	<u>149,737</u>	<u>(27,564)</u>
Net cash provided by operating activities	<u>\$ 729,790</u>	<u>\$ 245,019</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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.

The Corporation's operating revenues and expenses consist of items related to the operating activities of the Corporation, such as Administrative fee income, interest earned on loans receivable, and administrative expenses incurred by operations. Items not meeting this criteria are presented as non-operating revenues or expenses.

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. 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.

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.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

3. RETAINED EARNINGS DESIGNATIONS

The Board of Directors has designated the Corporation's 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, 2005 and 2004, 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, 2005 and 2004, the Board Designated net assets for operating reserve was \$1,000,000.

Financial Assistance Program

The Board designated \$9,650,000 and \$9,000,000 of net assets for this program at June 30, 2005 and 2004, respectively.

4. CASH AND CASH INVESTMENTS

Cash

At June 30, 2005 and 2004, the Corporation had deposits of \$339,153 and \$316,299, respectively, of which \$260,964 and \$269,640, 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, 2005 and 2004 was \$303,233 and \$308,778, 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, 2005 and 2004, the Corporation's uninsured and uncollateralized deposits with an institution was \$78,189 and \$46,589, respectively, however, none of these deposits were required to be collateralized.

It is the corporation's policy to limit its exposure to custodial credit risk for deposits by maintaining deposit accounts in several institutions in order to maximize coverage of FDIC insurance.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

4. CASH AND CASH INVESTMENTS (Continued)

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.

At June 30, 2005, the Corporation held the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury Bill	July 14, 2005	\$3,158,744
U.S. Treasury Bill	July 28, 2005	1,022,786
Federal Home Loan Mortgage Corp.	July 19, 2005	1,009,682
Federal Home Loan Bank	July 6, 2005	782,665
Federal Home Loan Bank	August 19, 2005	840,286
Federal Home Loan Bank	September 21, 2005	1,410,058
Federal National Mortgage Association	July 11, 2005	<u>701,368</u>
Total		<u>\$8,925,589</u>

At June 30, 2004, the Corporation held the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury Bill	July 29, 2004	\$1,003,066
Federal National Mortgage Association	July 21, 2004	5,594,081
Federal Home Loan Mortgage Corp.	July 20, 2004	989,478
Federal Home Loan Bank	July 21, 2004	<u>550,829</u>
Total		<u>\$8,137,454</u>

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

Credit Risk. The Corporation has managed its exposure to credit risk by investing in obligations that are issued by the U. S. Government or explicitly guaranteed by the U. S. Government.

Concentration of Credit Risk. As a result of its policy to manage credit risk, the corporation's investments are concentrated in U. S. Government and U. S. Government guaranteed issues.

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

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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, 2005 and 2004 is \$101,548 and \$142,168, 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, 2005 and 2004 is \$44,847 and \$56,547, 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, 2005 and 2004 is \$0 and \$7,539, respectively.

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, 2005 and 2004 is \$0 and \$80,000, 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, 2005 and 2004 is \$141,667 and \$164,583, 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, 2005 and 2004 is \$280,944 and \$338,040, 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, 2005 and 2004 is \$44,441 and \$65,941, 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, 2005 and 2004 is \$237,683 and \$282,776, respectively.

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, 2005 and 2004 is \$207,222 and \$248,942, 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, 2005 and 2004 is \$445,141 and \$486,580, respectively.

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, 2005 and 2004 is \$412,352 and \$456,126, respectively.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

5. LOANS RECEIVABLE (Continued)

In June 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, 2005 and 2004 is \$277,999 and \$300,000, respectively.

In July 2004, the Corporation entered into a loan agreement with Northwest Community Health Care for \$400,000 at an interest rate of 3.98%. The agreement stipulates 60 monthly payments of interest only in the amount of \$1,326.67 until the principle is payable in full at maturity. The outstanding principle balance at June 30, 2005 is \$400,000.

In May 2005, the Corporation entered into a loan agreement with Neighborhood Health Plan of RI for \$138,057. The agreement stipulates 46 monthly payments of \$3,236.65, including interest at 3.91%. The outstanding principle balance at June 30, 2005 is \$138,057.

6. LEASE COMMITMENT

The Corporation has entered into an operating lease for office space. Rental expense for the fiscal years ended June 30, 2005 and 2004 was \$99,084 and \$100,156, respectively. The lease expires in December, 2007. For the years ended June 30, 2006 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, 2005 and 2004 amounted to \$22,474 and \$20,943, respectively, equal to the required contributions for each year. Employee contributions to the Plan for the fiscal years ended June 30, 2005 and 2004 amounted to \$7,845 and \$5,980, 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, 2005 AND 2004**

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, 2005, the Interest Rate Subsidies awarded by the Board of Directors are the following:

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 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.

9. RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Corporation carries commercial insurance. In addition, the Corporation has designated a portion of its net assets for meeting co-insurance deductibles and potential claims in excess stated coverage levels. The Corporation is not currently aware of any such potential claims. Settled claims resulting from these risks have not exceeded the Corporation's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be \$-0- at June 30, 2005 and 2004.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

10. SUBSEQUENT EVENTS

On August 1, 2005 the Corporation issued \$14,125,000 in Hospital Financing Revenue Refunding bonds on behalf of Landmark Medical Center. The bonds bear interest serially at rates of 3.00% to 5.00% and mature on October 1, 2019.

In August 2005, the Corporation entered into a loan agreement with La Salle Academy for \$750,000. The agreement stipulates 60 monthly payments of \$13,863.48, including interest at 4.06%

In October 2005, the Corporation anticipates issuing \$85,500,000 in Educational Institution Revenue Bonds on behalf of Brown University.

In October 2005, the Corporation anticipates issuing \$30,000,000 in Educational Institution Revenue Bonds on behalf of Bryant University.

In October 2005, the Corporation anticipates issuing \$42,000,000 in Educational Institution Revenue Bonds on behalf of the City of Providence.

In October 2005, The Corporation anticipates issuing \$85,000,000 in Educational Institution Revenue Bonds on Behalf of the Board of Governors.

In October 2005, the Corporation anticipates issuing \$1,400,000 in Educational Institution Revenue Bonds on behalf of the Paul Cuffee School.

In October 2005, the Corporation anticipates issuing a \$9,500,000 Tax-Exempt Lease on behalf of St. Joseph Health Center.

In October 2005, the Corporation anticipates issuing a \$550,000 Tax-Exempt Lease on behalf of the City of East Providence.

In October 2005, the Corporation anticipates closing a loan with United Methodist Health Center in the amount of \$700,000.

In November 2005, the Corporation anticipates issuing a \$2,500,000 Tax-Exempt Lease on behalf of Women and Infants Hospital.

In December 2005, the Corporation anticipates issuing \$2,000,000 in Hospital Financing Revenue Bonds on behalf of East Bay Collaborative.

In December 2005, the Corporation anticipates issuing \$65,000,000 in Hospital Financing Revenue Bonds on behalf of South County Hospital.

(CONCLUDED)

SUPPLEMENTARY INFORMATION

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULES OF ADMINISTRATIVE EXPENSES - OPERATING FUND
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Wages	\$ 223,764	\$ 209,430
Financial consulting	210,779	386,819
Contributions	327,152	327,514
Rent	99,084	100,156
Consultant	15,000	10,000
Travel, entertainment and education	7,827	8,500
Accounting and audit	19,200	18,900
Insurance	28,475	28,661
Legal fees	143,156	124,068
Employee benefits	29,865	30,546
Pension expense	22,474	20,943
Payroll taxes	16,642	15,914
Miscellaneous	6,514	4,121
Office supplies	6,709	8,010
Computer related expenses	6,173	5,009
Dues and subscriptions	3,809	4,704
Telephone and internet	5,926	5,132
Parking	7,660	7,678
Postage and delivery	3,120	3,957
Payroll service charge	994	1,067
Bank service charge	417	532
Maintenance	1,274	1,325
Advertising	-	3,726
Temporary services	1,565	3,713
Utilities	1,612	1,415
Total administrative expenses	\$ 1,189,191	\$ 1,331,840

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULE OF CASH EQUIVALENTS AND MARKETABLE SECURITIES
JUNE 30, 2005**

<u>Cash Equivalents</u>	<u>Value</u>
Sovereign Money Market	\$ 14,502
Sovereign Money Market	58,544
Bank of America Money Market	14,336
Citizens Bank Savings	16,321
Citizens Bank Savings	50,369
Coastway Credit Union Savings	2,552
Sovereign Checking	63,220
Bank of America Savings	44,077
Citizens Bank Checking	39,312
	<hr/>
Total	\$ 303,233

<u>Investments</u>	<u>Market Value</u>
U.S. Treasury Bill due July 14, 2005	\$ 3,158,744
U.S. Treasury Bill due July 28, 2005	1,022,786
Federal Home Loan Mortgage Corp due July 19, 2005	1,009,682
Federal Home Loan Banks due July 6, 2005	782,665
Federal Home Loan Banks due August 19, 2005	840,286
Federal Home Loan Banks due September 21, 2005	1,410,058
Federal National Mortgage Association due July 11, 2005	701,368
	<hr/>
Total	\$ 8,925,589



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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, 2005 was \$7,827. 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.

August 29, 2005

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES
YEAR ENDED JUNE 30, 2005

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

Indianapolis, Indiana - September 29 - October 1, 2004

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
9/9/2004	NCHFFA/NAHEFA	Registration - RD, SO	\$ 400.00
8/16/2004	Robert Donovan	Airfare	235.90
8/23/2004	Scott O'Malley	Airfare	222.90
10/4/2004	Scott O'Malley	Meals, Lodging, Car Rental	873.48
Total			<u>\$ 1,732.28</u>

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

Kansas City, Missouri - April 13-15, 2005

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
3/4/2005	NCHFFA/NAHEFA	Registration -RD, SO	\$ 300.00
4/4/2005	Scott O'Malley	Airfare	346.80
4/21/2005	Scott O'Malley	Meals, Lodging, Car Rental	866.39
Total			<u>\$ 1,513.19</u>

IRS Advisory Committee Meetings - Tax Exempt Bonds

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
8/16/2004	Robert Donovan	August 8-9, 2004	\$ 211.42
12/9/2004	Robert Donovan	October 18-19, 2004	158.60
2/10/2005	Robert Donovan	January 10-11, 2005	109.58
4/21/2005	Robert Donovan	April 4-5, 2005	150.16
6/16/2005	Robert Donovan	June 6-8, 2005	187.08
Total			<u>\$ 816.84</u>

National Council Health Facilities Finance Authority - Advocacy

Washington, D.C. - July 14-16, 2004

7/22/2004	Robert Donovan	Airfare, Meals, Lodging, Trans.	\$ 862.22
Total			<u>\$ 862.22</u>

Washington, D.C. - June 30, 2005

8/9/2005	Robert Donovan	Airfare, Parking	\$ 443.90
Total			<u>\$ 443.90</u>

(continued)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES
YEAR ENDED JUNE 30, 2005**

Miscellaneous

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
8/24/2004	Robert Donovan	Board Dinner	\$ 396.46
12/21/2004	Robert Donovan	Annual Dinner	1,686.82
1/21/2005	Greater Prov Chamber	Legislative Lunch	60.00
4/18/2005	Greater Prov Chamber	Economic Outlook Lunch	120.00
6/10/2005	Greater Prov Chamber	Congressional Lunch	120.00
	Miscellaneous		75.00
Total			<u>\$ 2,458.28</u>
Total			<u><u>\$ 7,826.71</u></u>

(concluded)



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

To the Board of Directors
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, 2005, and have issued our report thereon dated August 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, 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.

Ruscott Chatelain Fountain & Wilkinson, LLP

August 29, 2005