

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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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

TABLE OF CONTENTS

Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-11
Financial Statements	
Statements of Net Position.....	12-13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows.....	15-16
Notes to Financial Statements	17-37
Supplementary Information	
Combining Statement of Net Position	38
Combining Statement of Revenues, Expenses and Changes in Net Position	39
Schedule of Travel, Entertainment and Educational Expenses	40
State of Rhode Island Required Format	
Attachment B - Statement of Net Position.....	41
Attachment C - Statement of Activities	42
Report Issued Pursuant to <i>Government Auditing Standards</i>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-45
View of Responsible Officials and Planned Corrective Action	46

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rhode Island Health and Educational Building Corporation (a component unit of the State of Rhode Island) (the "Corporation"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rhode Island Health and Educational Building Corporation, as of June 30, 2018, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Rhode Island Health and Educational Building Corporation as of June 30, 2017, were audited by other auditors whose report dated September 29, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rhode Island Health and Educational Building Corporation's basic financial statements. The combining statement of net position, combining statement of revenues, expenses and changes in net position, schedule of travel, entertainment and educational expenses and the State of Rhode Island required format on Pages 38-42 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, combining statement of revenues, expenses and changes in net position, schedule of travel, entertainment and educational expenses and the State of Rhode Island required format are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018 on our consideration of Rhode Island Health and Educational Building Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Health and Educational Building Corporation's internal control over financial reporting and compliance.

Marcum LLP

Providence, RI
October 2, 2018

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis

June 30, 2018 and 2017

The Rhode Island Health and Educational Building Corporation (the "Corporation") offers readers of these financial statements a narrative overview of the financial position and activities of the Corporation for the fiscal years ended June 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which are separately provided.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Position. The Corporation's basic financial statements are comprised of the following components:

Statements of Net Position – Presents information on all of the Corporation's assets and liabilities for the last two fiscal years, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

Statements of Revenues, Expenses and Changes in Net Position – Presents information showing how the Corporation's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. accrued compensable absences).

Statements of Cash Flows – Presents the sources and uses of funds of the Corporation for the last two fiscal years, including cash flows from operating, capital financing, non-capital financing and investing activities.

Notes to the Basic Financial Statements – The notes provide additional information essential for a full understanding of the basic financial statements. The notes are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

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

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS – FY 2018

- During FY 2018 the Corporation received a \$10,364,079 appropriation from the State of Rhode Island for the School Building Authority Capital Fund (“SBACF”) program.
- During FY 2018 the Corporation completed 9 bond financings totaling \$380,205,000 as compared to 16 bond financings completed during FY 2017 totaling \$878,908,000.
- During FY 2018 the Corporation transferred \$6,000,000 to the State of Rhode Island’s general fund.
- Total assets for FY 2018 are \$23,635,898, a decrease of \$7,035,957 or 23% over total assets for FY 2017.
- Cash and investments for FY 2018 are \$20,639,205, a decrease of \$6,694,155 or 24% over cash and investments for FY 2017.
- Operating revenues for FY 2018 are \$12,815,224, an increase of \$335,380 or 3% over operating revenues for FY 2017.
- Operating expenses for FY 2018 are \$14,646,230, a decrease of \$1,552,755 or 10% over operating expenses for FY 2017.
- Change in net position for FY 2018 is \$(7,546,126), a decrease of \$3,910,276 or 107% over the change in net position for FY 2017.

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

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS – FY 2017

- During FY 2017 the Corporation received a \$10,139,755 appropriation from the State of Rhode Island for the School Building Authority Capital Fund (“SBACF”) program.
- During FY 2017 the Corporation completed 16 bond financings totaling \$878,908,000 as compared to 15 bond financings completed during FY 2016 totaling \$300,030,000.
- Total assets for FY 2017 are \$30,671,855, a decrease of \$5,683,930 or 16% over total assets for FY 2016.
- Cash and investments for FY 2017 are \$27,333,360, a decrease of \$5,326,200 or 16% over cash and investments for FY 2016.
- Operating revenues for FY 2017 are \$12,479,844, a decrease of \$10,351,924 or 45% over operating revenues for FY 2016.
- Operating expenses for FY 2017 are \$16,198,985, an increase of \$12,554,222 or 344% over operating expenses for FY 2016.
- Change in net position for FY 2017 is \$(3,635,850), a decrease of \$23,690,563 or 118% over the change in net position for FY 2016.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

FINANCIAL ANALYSIS

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital assets, net	\$ 22,473	\$ 30,451	\$ 28,368
Other assets	<u>23,613,425</u>	<u>30,641,404</u>	<u>36,327,417</u>
Total assets	<u>23,635,898</u>	30,671,855	36,355,785
Other liabilities	<u>2,730,316</u>	<u>2,220,147</u>	<u>4,268,227</u>
Total liabilities	<u>2,730,316</u>	<u>2,220,147</u>	<u>4,268,227</u>
Net investment in capital assets	22,473	30,451	28,368
Restricted – School Building Authority Capital Fund	13,685,281	16,052,632	20,214,870
Unrestricted	<u>7,197,828</u>	<u>12,368,625</u>	<u>11,844,320</u>
Total net position	\$ <u>20,905,582</u>	\$ <u>28,451,708</u>	\$ <u>32,087,558</u>

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

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

Capital Assets

Capital assets decreased 26% during FY 2018 due to the net effect of the Corporation recording \$9,568 of depreciation and investing \$1,590 in capital assets.

Capital assets increased 7% during FY 2017 due to the net effect of the Corporation recording \$8,797 of depreciation and investing \$10,880 in capital assets.

The SBACF program is not invested in capital assets.

Total Assets

Total assets decreased \$7 million or 23% during FY 2018 due to the return of a \$1.4 million good-faith deposit and the transfer of \$6 million to the State of Rhode Island's general fund.

Total assets decreased \$5.7 million or 16% during FY 2017 due to the net effect of a \$7.7 million decrease in the SBACF program's cash, the receipt of a \$1.4 million good-faith deposit, and a \$1.3 million increase in the Corporation's investments.

Total Liabilities

Total liabilities increased \$0.5 million or 23% during FY 2018 due to the net effect of a \$1.8 million increase in the SBACF program's accrued project costs payable and the return of a \$1.4 million good-faith deposit received during FY 2017.

Total liabilities decreased \$2.0 million or 48% during FY 2017 due to the net effect of a \$2.4 million decrease in the SBACF program's loans payable, a \$1 million decrease in accrued project costs payable, and the receipt of a \$1.4 million good-faith deposit.

Total Net Position

As required by GASB 46, the Corporation's net position is classified as either net investment in capital assets, restricted or unrestricted. Most of the Corporation's unrestricted funds are, in fact, designated by the Corporation's Board of Directors for specific purposes and programs. The natures of these specifications, however, do not meet the requirements of GASB 46 to be classified as designated in the financial statements. The specific designations and corresponding amounts can be found in the notes to the financial statements.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Administrative fees	\$ 2,388,962	\$ 2,283,024	\$ 2,432,947
State appropriation - SBACF	10,364,079	10,139,755	20,366,366
Interest earned on loans receivable	<u>62,183</u>	<u>57,065</u>	<u>32,455</u>
Total operating revenues	<u>12,815,224</u>	<u>12,479,844</u>	<u>22,831,768</u>
Operating expenses:			
Administrative	1,510,687	1,837,497	1,652,684
Project cost grants	12,875,975	14,352,691	1,985,213
Grants	250,000	-	-
Depreciation	<u>9,568</u>	<u>8,797</u>	<u>6,866</u>
Total operating expenses	<u>14,646,230</u>	<u>16,198,985</u>	<u>3,644,763</u>
Operating income (loss)	<u>(1,831,006)</u>	<u>(3,719,141)</u>	<u>19,187,005</u>
Non-operating revenues:			
Loss on disposal of capital assets	-	-	(2,393)
Net investment income	173,221	65,626	36,384
Other income	89,560	-	827,824
Interest earned on restricted cash	<u>22,099</u>	<u>17,665</u>	<u>5,893</u>
Total non-operating revenues	<u>284,880</u>	<u>83,291</u>	<u>867,708</u>
Transfer to state	<u>(6,000,000)</u>	-	-
Increase (decrease) in net position	<u>(7,546,126)</u>	<u>(3,635,850)</u>	<u>20,054,713</u>
Net position, at beginning of year	<u>28,451,708</u>	<u>32,087,558</u>	<u>12,032,845</u>
Net position, at end of year	<u>\$ 20,905,582</u>	<u>\$ 28,451,708</u>	<u>\$ 32,087,558</u>

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

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

Revenues

Administrative Fees

Administrative fees are the annual fees the Corporation charges borrowers based on the outstanding principal amount of their conduit debt.

Administrative fee revenue increased 5% for FY 2018 due to an increase in outstanding conduit debt of \$101.5 million or 3% when compared to FY 2017.

Administrative fee revenue decreased 6% for FY 2017 due to a decrease in outstanding conduit debt of \$83.4 million or 3% when compared to FY 2016.

State Appropriation

During FY 2018 the SBACF program received a \$10.4 million appropriation from the State of Rhode Island, an increase of \$224,300 or 2% over FY 2017.

During FY 2017 the SBACF program received a \$10.1 million appropriation from the State of Rhode Island, a decrease of \$10.2 million or 50% over FY 2016.

Expenses

Administrative

Administrative expenses decreased \$326,800 or 18% during FY 2018 due to a decrease in expenses related to providing financing.

Administrative expenses increased \$184,800 or 11% during FY 2017 due to an increase in expenses related to providing financing.

Project Cost Grants

During FY 2018, the SBACF program reported project cost grant expenses of \$12.9 million, a decrease of \$1.5 million over the \$14.4 million reported during FY 2017.

During FY 2017, the SBACF program reported project cost grant expenses of \$14.4 million, an increase of \$12.4 over the \$2 million reported during FY 2016.

Payments to the State

During FY 2018, the Corporation made a payment to the State of Rhode Island's general fund in the amount of \$6 million.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2018 and 2017

Expenses (Continued)

During FY 2017 the corporation was not required to make any payments to the State.

CONDUIT DEBT

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds Payable	\$ <u>3,151,194,380</u>	\$ <u>3,049,711,865</u>	\$ <u>3,133,129,418</u>

The Corporation issued \$380,205,000 of conduit debt during FY 2018. Of that amount, approximately \$255,850,000 was issued to finance new projects and \$124,355,000 was issued to refund prior bonds.

The Corporation issued \$878,908,000 of conduit debt during FY 2017. Of that amount, approximately \$172,261,100 was issued to finance new projects and \$706,646,900 was issued to refund prior bonds.

More detail on the Corporation's conduit debt can be found in the notes to the financial statements.

FACTORS AFFECTING FUTURE FINANCING ACTIVITY

The Rhode Island General Assembly passed an Act in 2018 authorizing the issuance of \$250,000,000 bonds to provide assistance to cities and towns for the construction of new public schools and the renovation of existing public schools. If approved, the funds would be an additional appropriation to the RI SBACF program. The Corporation is the administrator of the SBACF program.

CONTACTING THE CORPORATION

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 accountability. If you have any questions about this report or need additional financial information, contact the Rhode Island Health and Educational Building Corporation, 55 Dorrance Street, Suite 300, Providence, RI 02903, or visit our website at www.rihebc.com.

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

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 257,359	\$ 645,380
Cash and cash equivalents - restricted	13,862,749	14,266,110
Investments	6,439,097	12,261,870
Current portion of loans receivable	71,541	117,269
Current portion of School Building Authority Capital Fund loans receivable	295,681	480,508
Accounts receivable	27,129	37,477
Prepaid expenses	55,629	46,965
Accrued interest receivable	4,800	40,888
Total Current Assets	21,013,985	27,896,467
Non-Current Assets		
Loans receivable, net of current portion	637,499	708,909
School Building Authority Capital Fund loans receivable, net of current portion	1,881,941	1,876,028
Investments	80,000	160,000
Capital assets, net	22,473	30,451
Total Non-Current Assets	2,621,913	2,775,388
Total Assets	\$ 23,635,898	\$ 30,671,855

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2018 AND 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Accrued expenses	\$ 121,738	\$ 225,902
Deposits held for other	--	1,400,000
Project cost grants payable	2,358,578	587,183
Grants payable	250,000	--
Project cost loans payable	--	7,062
Total Liabilities	2,730,316	2,220,147
Net Position		
Net investment in capital assets	22,473	30,451
Restricted - School Building Authority Capital Fund:		
Loans receivable	--	7,062
Held for authorized projects	12,736,145	3,724,054
Available for future projects	949,136	12,321,516
Unrestricted	7,197,828	12,368,625
Total Net Position	20,905,582	28,451,708
Total Liabilities and Net Position	\$ 23,635,898	\$ 30,671,855

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues		
Administration fees	\$ 2,388,962	\$ 2,283,024
State appropriations - School Building Authority Capital Fund	10,364,079	10,139,755
Interest earned on loans receivable	62,183	57,065
Total Operating Revenues	12,815,224	12,479,844
Operating Expenses		
Administrative	1,510,687	1,837,497
Project cost grants	12,875,975	14,352,691
Grants	250,000	--
Depreciation	9,568	8,797
Total Operating Expenses	14,646,230	16,198,985
Operating Loss	(1,831,006)	(3,719,141)
Non-Operating Revenues		
Net investment income	173,221	65,626
Other income	89,560	--
Interest earned on restricted cash	22,099	17,665
Total Non-Operating Revenues	284,880	83,291
Transfer to State	(6,000,000)	--
Decrease in Net Position	(7,546,126)	(3,635,850)
Net Position - Beginning of Year	28,451,708	32,087,558
Net Position - End of Year	\$ 20,905,582	\$ 28,451,708

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

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from institutions for administrative fees	\$ 2,399,310	\$ 2,318,006
Cash received from State appropriation	10,364,079	10,139,755
Cash received for deposits held for others	--	1,400,000
Cash received from other sources	89,560	--
Payment of project cost grants	(11,104,580)	(15,443,990)
Payment of deposits held for others	(1,400,000)	--
Payment of employees for services	(516,688)	(472,569)
Payment to suppliers for goods and services	(1,106,827)	(1,332,640)
Net Cash Used in Operating Activities	<u>(1,275,146)</u>	<u>(3,391,438)</u>
Cash Flows Used in Non-Capital Financing Activities		
Transfer to State	<u>(6,000,000)</u>	<u>--</u>
Cash Flow Used in Capital and Related Financing Activity		
Purchase of capital assets	<u>(1,590)</u>	<u>(10,880)</u>
Cash Flows from Investing Activities		
Purchases of investment securities	(1,162,227)	(23,837,412)
Proceeds from sale and maturities of investment securities	7,065,000	21,148,453
Disbursement of project cost loans payable	(7,062)	(2,393,474)
Collections on loans receivable	296,052	366,742
Interest earned on loans receivable	98,271	19,559
Net investment income	195,320	83,291
Net Cash Provided by (Used in) Investing Activities	<u>6,485,354</u>	<u>(4,612,841)</u>
Net Decrease in Cash and Cash Equivalents	(791,382)	(8,015,159)
Cash and Cash Equivalents - Beginning of Year	<u>14,911,490</u>	<u>22,926,649</u>
Cash and Cash Equivalents - End of Year	<u>\$ 14,120,108</u>	<u>\$ 14,911,490</u>

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities:		
Operating loss	\$ (1,831,006)	\$ (3,719,141)
Adjustments to reconcile net loss to net cash		
Used in operating activities:		
Depreciation	9,568	8,797
Other income	89,560	--
Interest on loans receivable	(98,271)	(19,559)
Changes in assets and liabilities:		
Accounts receivable	10,348	34,982
Prepaid expenses	(8,664)	(4,405)
Accrued interest receivable	36,088	(37,506)
Accrued expenses	(104,164)	36,693
Deposits held for others	(1,400,000)	1,400,000
Project cost grants payable	1,771,395	(1,091,299)
Grants payable	250,000	--
Net Cash Used in Operating Activities	\$ (1,275,146)	\$ (3,391,438)
 Cash and Cash Equivalents are made up of the following:		
Cash and equivalents	\$ 257,359	\$ 645,380
Cash and equivalents - restricted	13,862,749	14,266,110
	\$ 14,120,108	\$ 14,911,490

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Rhode Island Health and Educational Building Corporation (the “Corporation”) is a component unit of the State of Rhode Island (the “State”) for financial reporting purposes, as such, the financial statements of the Corporation will be included in the State’s Comprehensive Annual Financial Report. The purpose of the Corporation is to aid eligible institutions in the educational and healthcare fields in Rhode Island gain access to capital, remain proactive in developing cost-effective programs, offer staff assistance and provide technical resources that benefit these institutions.

SCHOOL BUILDING AUTHORITY CAPITAL FUND

The State fiscal year 2016 budget legislation established a School Building Authority Capital Fund (“SBACF”) to address high priority projects in communities with limited financial resources. Under the provisions of Rhode Island General Law 45-38.2, the legislation assigned certain administrative duties related to the management and custody of monetary assets of SBACF to the Corporation, including establishing a trust to hold related monies, creating and maintaining SBACF’s account records and the distribution and management of SBACF’s award program.

Awards are granted for the purpose of repairing public school facilities for cities, towns and local education agencies (“LEAs”) by the Rhode Island Department of Education (“RIDE”) and approved by the Corporation. Once approved, a portion of the project costs, based on the city’s, town’s or LEA’s state housing aid reimbursement rate, are provided as a grant. The city, town or LEA may also elect to fund the remaining balance of their project costs through a loan from the SBACF. Funding of SBACF is expected to continue through annual appropriations from the legislature, interest earned on loans, bond refinance interest savings and other payments received by the Corporation pursuant to finance agreements with cities, towns and LEAs.

BASIS OF PRESENTATION

RIHEBC’s financial statements include both RIHEBC and SBACF and have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”), as prescribed by the Governmental Accounting Standards Board (“GASB”). Under the accrual basis, revenues are recognized when earned and expenses when the related liability for goods or services is incurred, regardless of the timing of the related cash flows. No eliminations of transactions between RIHEBC and SBACF were required in preparation of the financial statements.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

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

REVENUE RECOGNITION

The principal operating revenues of the Corporation are administrative fees relating to various bonds and notes outstanding, which are recognized as revenue as of the periodic billing date. The principal operating revenues of the SBACF are state appropriations. Operating expenses consist predominantly of administrative expenses and project/grant expenses, which are recognized as incurred. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. These non-operating activities primarily consist of gains or losses relating to investments or disposals of capital assets and contributions made to the state.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable and estimating depreciation.

CASH AND EQUIVALENTS

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND EQUIVALENTS - RESTRICTED

The Corporation's restricted cash and equivalents include cash deposits in a designated trust at financial institution(s) and institutional money market accounts and are designated for borrower construction drawdowns related to the School Building Authority Capital Fund.

INVESTMENTS

Investments are stated at fair value or at amortized cost, which approximates fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income includes interest, dividends, realized and unrealized gains or losses. The Corporation's investment activities are governed by its enabling legislation and by State law pertaining to the investment activities of state agencies.

ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable are stated at the amount management expects to collect from outstanding balances. Allowances for potential credit losses are determined by considering the financial condition of its customers and other economic factors affecting the customers and their industries. As of the dates of the Statements of Net Position, management is of the opinion that an allowance for doubtful accounts is not necessary. Interest earned on loans receivable is recognized over the life of the loans.

PREPAID EXPENSES

Prepaid expenses consist of payments related to insurance and deposits for the years ended June 30, 2018 and 2017.

CAPITAL ASSETS

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS HELD FOR OTHERS

Deposits held for others represented a liability for a good faith deposit from the bond purchaser related to a potential future bond issuance. During fiscal year 2018, the deposit was remitted in full to the trustee.

PROJECT COSTS PAYABLE

Project costs payable represent the liability for amounts granted or loaned but not yet requisitioned by recipients for their projects as of year-end.

COMPENSATED ABSENCES

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is included in accrued expenses at June 30, 2018 and 2017. Upon retirement or termination, employees are compensated for all accumulated unused vacation leave. At June 30, 2018 and 2017, compensated absences totaled approximately \$63,000 and \$59,000, respectively.

Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
\$ 59,000	\$ 40,000	\$ 36,000	\$ 63,000

NET POSITION

Net position is classified into the following categories:

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

Restricted: Those assets with restrictions on their use imposed by creditors, grantors, contributors, or laws and regulations of other governments or that are imposed by the government's own constitutional provisions or enabling legislation.

Unrestricted: Those assets, deferred outflows and inflows of resources, and liabilities that are not included in the determination of net investment in capital assets or restricted net position.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain 2017 financial statement amounts have been reclassified to conform to the 2018 presentation. There is no change in the reported change in net position.

TAX STATUS

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

RECENTLY ISSUED GOVERNMENTAL ACCOUNTING STANDARDS

GASB Statement No. 87, *Leases* is effective for the Corporation's fiscal year ending June 30, 2021. Management has not yet completed its review of the requirements of this standard and its applicability.

NOTE 2 - CONDUIT DEBT

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

At June 30, 2018 and 2017, the bond issues and leases outstanding are as follows:

Institution	Year Issued	Maturity Date	Outstanding Principal at June 30, 2018	Outstanding Principal at June 30, 2017 (as restated)*
Johnson & Wales University	1999	04/01/2029	3,080,000	6,000,000
International Institute of RI, Inc.	2003	08/01/2033	1,560,000	1,640,000
Brown University, Series B	2003	09/01/2043	40,680,000	41,175,000
The Groden Center, Inc., Series A & B	2004	10/01/2029	1,885,000	2,885,000
Catholic School Pool Program, Series A	2005	04/01/2035	3,430,000	3,585,000
Meeting Street Center	2005	06/01/2035	6,395,000	6,890,000
Brown University, Series A	2005	05/01/2035	85,500,000	85,500,000

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - CONDUIT DEBT (CONTINUED)

Institution	Year Issued	Maturity Date	Outstanding Principal at June 30, 2018	Outstanding Principal at June 30, 2017 (as restated)*
Public Schools Revenue Bonds, Series A	2007	05/15/2027	315,000	350,000
NRI Community Services, Inc.	2007	06/01/2037	2,540,000	2,625,000
Brown University 2007	2007	09/01/2037	--	86,360,000
Public Schools Revenue Bonds, Series B	2007	05/15/2027	775,000	835,000
CVS-Highlander Charter School 2007	2007	09/01/2037	3,305,000	3,345,000
Public Schools Revenue Bonds, Series C	2007	05/15/2021	3,515,000	4,870,000
Providence Public Building Authority, Series B	2007	05/15/2028	4,185,000	5,495,000
Public Schools Revenue Bonds, Series D	2007	11/15/2027	2,895,000	3,120,000
Home & Hospice Care of RI	2008	02/01/2038	8,284,500	8,554,500
The Learning Community Charter School	2008	02/01/2038	3,202,000	3,302,000
Rhode Island School of Design, Series A & B	2008	08/15/2036	77,250,000	78,960,000
Bryant University	2008	06/01/2035	46,670,000	47,135,000
Roger Williams University, Series A	2008	11/15/2024	11,135,000	12,510,000
New England Institute of Technology	2008	03/01/2034	9,595,000	10,400,000
Public Schools Revenue Bonds, Series B	2008	05/15/2029	425,000	500,000
Roger Williams University, Series B	2008	11/15/2038	32,190,000	33,130,000
Board of Governors, Series A & B	2008	09/15/2034	3,830,000	3,830,000
Public Schools Revenue Bonds, Series A	2009	05/15/2024	2,560,000	2,990,000
Public Schools Revenue Bonds, Series B	2009	05/15/2021	225,000	300,000
Board of Governors, Series A & B	2009	09/15/2029	14,125,000	23,465,000
Brown University, Series A	2009	09/01/2039	70,795,000	70,795,000
Providence Public Building Authority, Series A	2009	06/15/2025	10,480,000	11,960,000
Board of Governors, Series A	2010	09/15/2040	20,525,000	21,065,000
Board of Governors, Series B	2010	09/15/2040	--	39,010,000
Public Schools Revenue Bonds, Series A	2010	05/15/2017	12,575,000	12,575,000
Public Schools Revenue Bonds, Series B	2010	05/05/2020	940,000	1,410,000
Thundermist Health Center, Series A	2010	08/01/2020	2,515,458	2,722,208
Public Schools Revenue Bonds, Series C	2010	05/15/2026	2,505,000	2,715,000
Public Schools Revenue Bonds, Series D	2010	05/15/2025	2,278,000	2,550,000
Public Schools Revenue Bonds, Series E	2010	05/15/2025	4,487,000	5,021,000
Public Schools Revenue Bonds, Series F & G	2010	05/15/2029	24,100,000	24,100,000
Providence Public Building Authority, Series A & B	2010	05/15/2029	21,945,000	21,945,000
J. Arthur Trudeau Memorial Center	2010	12/01/2040	2,150,000	2,205,000
The Providence Community Health Centers, Inc.	2010	06/01/2037	9,757,304	10,126,723

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - CONDUIT DEBT (CONTINUED)

Institution	Year Issued	Maturity Date	Outstanding Principal at June 30, 2018	Outstanding Principal at June 30, 2017 (as restated)*
Public Schools Revenue Bonds, Series A	2011	05/15/2031	4,305,000	4,690,000
Roger Williams University	2011	11/15/2024	15,160,000	16,975,000
Public Schools Revenue Bonds, Series B	2011	05/15/2031	--	8,485,000
Public Schools Revenue Bonds, Series C	2011	05/15/2031	10,010,000	10,780,000
The Compass School, Series A - C	2011	06/28/2027	1,265,001	1,370,000
Brown University, Series A	2011	09/01/2032	46,160,000	50,710,000
Blackstone Valley Community Health Care, Inc.	2011	01/01/2022	5,435,413	5,626,770
Steere House	2011	09/01/2036	4,473,000	4,641,000
Portsmouth Abbey School	2011	10/01/2031	4,435,000	4,720,000
Ocean State Assisted Living	2011	11/01/2031	8,925,000	9,320,000
Bryant University	2011	12/01/2031	18,165,000	19,080,000
Roger Williams University, Series B	2011	12/15/2029	8,655,000	9,185,000
Salve Regina University	2011	06/15/2031	18,535,000	20,990,000
Providence College	2012	11/01/2041	34,240,000	35,105,000
Public Schools Revenue Bonds, Series A	2012	05/15/2037	30,180,000	31,235,000
Rhode Island School of Design	2012	06/01/2031	24,245,000	24,950,000
Immaculate Conception Catholic Regional School	2012	03/16/2032	4,468,750	4,793,750
Rocky Hill School	2012	04/26/2022	2,644,650	2,742,873
Seven Hills Rhode Island, Inc., Series A	2012	05/31/2042	3,223,000	3,289,000
Brown University	2012	09/01/2022	118,240,000	118,240,000
Rhode Island Blood Center	2012	09/29/2028	7,744,242	7,957,774
Rhode Island School of Design, Series B	2012	08/15/2035	43,940,000	45,650,000
Care New England	2012	09/28/2019	2,230,591	3,690,477
Public Schools Revenue Bonds, Series B	2012	05/15/2032	11,850,000	12,510,000
The Kent Center, Inc.	2012	10/12/2022	4,146,128	4,260,292
Providence College, Series B & C	2012	11/01/2024	28,385,000	31,805,000
Bryant University	2013	06/30/2019	1,175,000	2,330,000
Scandinavian Home	2013	04/01/2040	3,738,857	3,847,536
Public Schools Revenue Bonds, Series A	2013	05/15/2033	5,725,000	6,110,000
Public Schools Revenue Bonds, Series B	2013	05/15/2033	8,630,000	9,490,000
Board of Education, Series A - D	2013	09/15/2024	31,220,000	35,450,000
Public Schools Revenue Bonds, Series C & D	2013	05/15/2033	24,745,000	26,395,000
Lifespan Obligated Group	2013	06/14/2020	14,880,869	22,138,822
Seven Hills Rhode Island, Inc. , Series A	2013	06/21/2043	1,379,165	1,434,332
Saint Elizabeth Manor, East Bay	2013	07/31/2043	7,480,827	7,656,061
Public Schools Revenue Bonds, Series E	2013	05/15/2028	555,000	680,000

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - CONDUIT DEBT (CONTINUED)

Institution	Year Issued	Maturity Date	Outstanding Principal at June 30, 2018	Outstanding Principal at June 30, 2017 (as restated)*
The Wheeler School, Series B	2013	09/18/2028	1,374,753	2,388,205
Providence Public Building Authority, Series A	2013	05/15/2024	30,725,000	38,405,000
Roger Williams University, Series A	2013	11/15/2028	16,221,688	17,487,474
Public Schools Revenue Bonds, Series H	2013	05/15/2034	9,780,000	10,230,000
St. Andrew's School	2013	06/01/2043	15,390,000	15,670,000
Brown University	2013	09/01/2043	129,925,000	132,670,000
Public Schools Revenue Bonds, Series I	2013	11/15/2021	995,000	1,265,000
Public Schools Revenue Bonds, Series J	2013	05/15/2020	1,835,000	2,730,000
Public Schools Revenue Bonds, Series I	2013	11/15/2023	6,280,000	7,170,000
Bryant University	2014	06/01/2044	43,890,000	44,730,000
Public Schools Revenue Bonds, Series A	2014	05/15/2034	6,565,000	7,440,000
Portsmouth Abbey School	2014	07/01/2024	1,706,250	1,811,250
Public Schools Revenue Bonds, Series B	2014	05/15/2034	2,825,000	2,960,000
St. George's School, Series A, B & C	2014	09/01/2044	38,823,763	39,618,284
Times ² Academy, Inc.	2014	10/01/2026	6,982,142	7,954,837
Public Schools Revenue Bonds, Series C	2014	05/15/2034	6,850,000	7,170,000
Roger Williams University	2014	10/15/2035	13,744,303	14,314,402
The Pennfield School, Series A & B	2014	11/01/2039	3,865,269	3,988,834
Newport Hospital	2014	07/01/2029	16,813,000	17,972,000
Public Schools Revenue Bonds, Series A	2015	11/15/2020	3,340,000	4,425,000
Providence Public Building Authority, Series A	2015	05/15/2028	131,625,000	142,695,000
Child and Family Services of Newport County	2015	04/30/2043	7,652,498	8,976,088
Salve Regina University, Series A, B & C	2015	05/01/2045	25,453,027	26,193,284
Mercymount Country Day School	2015	05/01/2035	3,131,024	3,273,077
Providence College	2015	11/01/2045	42,200,000	43,970,000
South County Hospital Healthcare System	2015	09/15/2033	39,435,000	41,585,000
Public Schools Revenue Bonds, Series B	2015	05/15/2036	4,230,000	4,400,000
New England Institute of Technology	2015	09/01/2045	57,841,823	60,000,000
Saint Philomena School	2015	04/01/2035	1,676,472	1,754,828
Johnson & Wales University	2015	10/01/2030	25,319,476	26,983,131
Tamarisk, Inc.	2015	10/01/2040	8,677,585	8,940,565
Brown University	2015	09/01/2045	42,755,000	43,900,000
Bishop Hendricken High School, Series A & B	2015	04/01/2035	4,707,999	4,919,078
The Prout School	2015	04/01/2036	4,571,750	4,772,583
Saint Raphael Academy	2015	04/01/2036	4,420,000	4,580,833

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - CONDUIT DEBT (CONTINUED)

Institution	Year Issued	Maturity Date	Outstanding Principal at June 30, 2018	Outstanding Principal at June 30, 2017 (as restated)*
Providence Public Building Authority, Series B	2015	05/15/2035	9,300,000	9,720,000
Public Schools Revenue Bonds, Series C - E	2015	05/15/2036	20,610,000	22,600,000
Saint Elizabeth Home, East Greenwich	2015	12/01/2045	13,578,476	13,876,352
Moses Brown School, Series A, B & C	2016	06/01/2046	20,051,000	20,051,000
Public Schools Revenue Bonds, Series A	2016	05/15/2029	83,940,000	85,590,000
Lifespan Obligated Group	2016	05/15/2039	238,490,000	250,755,000
Public Schools Revenue Bonds, Series B & C	2016	05/15/2036	6,875,000	7,305,000
Care New England, Series B	2016	09/01/2036	138,265,000	138,265,000
The Frassati Residence	2016	11/01/2029	5,738,375	6,132,243
Saint Antoine Residence	2016	11/01/2018	490,648	1,653,399
Council on Postsecondary Ed., Series A, B & C	2016	09/15/2036	87,780,000	90,800,000
Roger Williams University, Series A & B	2016	11/15/2031	6,886,345	7,300,000
New England Institute of Technology	2017	03/01/2040	35,299,292	36,450,000
Public Schools Revenue Bonds, Series A	2017	05/15/2034	57,980,000	58,115,000
Providence College	2017	11/01/2047	46,415,000	46,415,000
Public Schools Revenue Bonds, Series B	2017	05/15/2027	14,375,000	14,375,000
Public Schools Revenue Bonds, Series C	2017	05/15/2027	63,155,000	63,480,000
Public Schools Revenue Bonds, Series D	2017	05/15/2037	9,385,000	9,750,000
Public Schools Revenue Bonds, Series E	2017	05/15/2037	22,920,000	23,615,000
Public Schools Revenue Bonds, Series F	2017	05/15/2038	19,835,000	19,835,000
Brown University, Series A	2017	09/01/2047	141,125,000	--
Public School Revenue Bonds, Series G	2017	05/15/2042	36,655,000	--
Public School Revenue Bonds, Series H	2017	05/15/2038	5,000,000	--
University of Rhode Island, Series A - D	2017	09/15/2047	123,215,000	--
Public Schools Revenue Bonds, Series I & J	2017	05/15/2032	15,660,000	--
Portsmouth Abbey School, Series A & B	2017	11/01/2037	7,917,667	--
Meeting Street, Series A & B	2017	12/01/2047	20,000,000	--
Public Schools Revenue Bonds, Series A	2018	05/15/2038	4,740,000	--
Public Schools Revenue Bonds, Series B	2018	05/15/2038	18,690,000	--
			<u>\$ 3,151,194,380</u>	<u>\$ 3,049,711,865</u>

* The restatement of the June 30, 2017 conduit debt balance represents a change in the outstanding balance related to Moses Brown School, 2016 Series A, B & C issuances, from \$27,000,000 (as originally presented) to \$20,051,000 (as restated).

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 3 - CASH AND EQUIVALENTS

DEPOSITS

The Corporation's policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance, which states that any depository institution holding public deposits shall insure or pledge eligible collateral equal to one hundred percent (100%) of any time-deposit with maturities greater than sixty (60) days. If any depository institution does not meet its minimum capital standards as prescribed by its federal regulator, they shall insure or pledge eligible collateral equal to one-hundred percent (100%) of all public deposits.

The Corporation does not have a policy for custodial credit risk associated with deposits.

At June 30, 2018 and 2017, the carrying amounts of the Corporation's cash deposits were approximately \$257,000 and \$1,647,000, respectively, and bank balances were approximately \$306,000 and \$1,647,000, respectively. Included in these cash deposits at June 30, 2018 and 2017 are certificates of deposit totaling approximately \$0 and \$1,001,000, respectively, which are reported as investments (Note 4). Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized,
- b) Collateralized with securities held by pledging financial institution, or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name.

Of the bank balances at June 30, 2018 and 2017, approximately \$250,000 and \$535,000, respectively, was covered by federal depository insurance, and approximately \$0 and \$1,001,000, respectively, was collateralized with securities held by the pledging financial institution in the Corporation's name. The remaining amount of approximately \$56,000 and \$111,000, respectively, was uninsured and uncollateralized at June 30, 2018 and 2017, respectively. The insured balances reflect FDIC insurance in effect during June 30, 2018 and 2017.

CASH AND EQUIVALENTS - RESTRICTED

The Corporation's restricted cash and cash equivalents balance of \$13,862,749 at June 30, 2018 includes cash deposits designated for borrower construction drawdowns related to the School Building Authority Capital Fund. Of the \$13,862,749 bank balance at June 30, 2018, \$250,000 was covered by federal depository insurance, and the remaining balance of \$13,612,749 was uninsured and uncollateralized.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 4 - INVESTMENTS

FAIR VALUE HIERARCHY

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

U.S. Government and U.S. Government Agencies: Comprised of bonds issued by the U.S. Treasury and the Federal Home Loan Bank. The fair values of U.S. Government securities are based on quoted market prices in active markets.

Certificates of Deposit: Valued based upon interest accumulated at year-end.

General Obligation Bonds: Valued at the principal balance outstanding.

OCEAN STATE INVESTMENT POOL TRUST

At June 30, 2018 and 2017, the Corporation had investments consisting of \$6,359,097 and \$9,695,452, respectively, in the Ocean State Investment Pool Trust (“OSIP”), an investment pool established by the State of Rhode Island General Treasurer. The Corporation’s investment accounted for less than 5% of the total investment in OSIP at June 30, 2018 and 2017, respectively. Agencies, authorities, commissions, boards, municipalities, political subdivisions and other public units of the State may invest in OSIP. OSIP has met the criteria outlined in GASB Statement No. 79 - *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (“NAV”) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue, 2nd Floor, Warwick, RI 02886.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 4 - INVESTMENTS (CONTINUED)

INTEREST RATE RISK

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

CREDIT RISK

The Corporation has managed its exposure to credit risk by investing in obligations that are issued by the U.S. Government or implicitly guaranteed by the U.S. Government, in accordance with State regulations.

The City of Central Falls ("City") General Obligation Bond was rated as BBB by S&P Global at June 30, 2018 and Ba1 by Moody's at June 30, 2017. The City filed a Chapter 9 bankruptcy petition during fiscal year 2012. The State of Rhode Island has passed legislation to give priority to bond payments and has the ability to intercept aid to mitigate potential bondholder losses. Due to these factors, management has determined that an allowance for uncollectable general obligation bonds is not necessary at this time.

CONCENTRATION OF CREDIT RISK

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

At June 30, 2018, the Corporation held the following investments:

	Fair Value	Fair Value Hierarchy	Interest Rate	Maturity	Rating
Ocean State Investment Pool Trust	\$ 6,359,097	N/A	N/A	N/A	N/A
City of Central Falls General Obligation Bonds	<u>160,000</u>	Level 2	5.39%	5/5/2020	BBB
Total investments	<u>\$ 6,519,097</u>				

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 4 - INVESTMENTS (CONTINUED)

Investments, current portion:

Ocean State Investment Pool Trust	\$ 6,359,097
City of Central Falls General Obligation Bonds	<u>80,000</u>
Total Current Portion	6,439,097

Investments, non-current portion:

City of Central Falls General Obligation Bonds	<u>80,000</u>
Total investments, June 30, 2018	<u>\$ 6,519,097</u>

At June 30, 2017, the Corporation held the following investments:

	Fair Value	Fair Value Hierarchy	Interest Rate	Maturity	Rating
U.S. Treasury Notes	\$ 1,400,000	Level 1	0.134%	7/15/2017	AAA
Ocean State Investment Pool Trust	9,695,452	N/A	N/A	N/A	N/A
City of Central Falls General Obligation Bonds	325,000	Level 2	5.39%	5/5/2020	Ba1
Certificates of Deposit	<u>1,001,418</u>	Level 1	0.15%	7/20/2017	N/A
Total investments	<u>\$ 12,421,870</u>				

Investments, current portion:

U.S. Treasury Notes	\$ 1,400,000
Ocean State Investment Pool Trust	9,695,452
City of Central Falls General Obligation Bonds	165,000
Certificates of Deposit	<u>1,001,418</u>
Total Current Portion	12,261,870

Investments, non-current portion:

City of Central Falls General Obligation Bonds	<u>160,000</u>
Total investments, June 30, 2017	<u>\$ 12,421,870</u>

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 5 - LOANS RECEIVABLE

Corporation's loans receivable as of the years ended June 30, are as follows:

	2018	2017
In November 2005, the Corporation entered into a loan agreement with the United Methodist Health Center for \$700,000. The agreement stipulates monthly payments of \$4,879 inclusive of interest at 4.40% until maturity in November 2015. In June 2015, the loan was refinanced for \$795,000 and the new agreement stipulates monthly payments of \$4,802 inclusive of interest at 2.50% until maturity in June 2025.	\$ 678,395	\$ 718,270
In July 2009, the Corporation entered into a loan agreement with Northwest Community Health Care for \$410,000. The agreement stipulates monthly payments of \$4,856 inclusive of interest at 3.25% until maturity in July 2017.	--	4,842
In December 2013, the Corporation entered into a loan agreement with Gateway Healthcare, Inc. for \$350,000. The agreement stipulates monthly payments of \$6,162 inclusive of interest of 2.18% until maturity in November 2018.	<u>30,645</u>	<u>103,066</u>
Total Loans Receivable	709,040	826,178
Less Current Portion	<u>71,541</u>	<u>117,269</u>
Non-Current Loans Receivable	<u>\$ 637,499</u>	<u>\$ 708,909</u>

NOTE 6 - SCHOOL BUILDING AUTHORITY CAPITAL FUND LOANS RECEIVABLE

As discussed in Note 1, the Corporation is administrator of the School Building Authority Capital Fund which provides loans as a portion of the project costs, which are used for the repairs of public school facilities. The awarded city, town or LEA will sign a loan agreement with the Corporation for the total cost of the project. Upon completion of the project the awardee will be responsible for repayment of their local (loan) share of the award plus interest. The local share is determined by RIDE's education funding formula. The remaining costs are considered to be the city, town, or LEA's state portion and are deemed a grant.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 6 - SCHOOL BUILDING AUTHORITY CAPITAL FUND LOANS RECEIVABLE (CONTINUED)

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

	2018	2017
<p>In June 2016, the Corporation entered into a loan agreement with the Town of North Providence for \$218,000. The agreement stipulates annual payments ranging from \$43,404 to \$45,884 inclusive of interest at 0.94% until maturity in June 2021.</p>	\$ 130,000	\$ 174,000
<p>In June 2016, the Corporation entered into a loan agreement with the City of Providence for \$1,830,536. The agreement stipulates annual payments ranging from \$186,568 to \$215,466 inclusive of interest at 1.92% until maturity in June 2026.</p>	1,464,429	1,830,536
<p>In June 2016, the Corporation entered into a loan agreement with the City of Pawtucket for \$352,000. The agreement stipulates annual payments ranging from \$35,876 to \$41,433 inclusive of interest at 1.92% until maturity in June 2026.</p>	275,665	352,000
<p>In December 2017, the Corporation entered into a loan agreement with the City of Providence for \$341,698. The agreement stipulates annual payments ranging from \$34,973 to \$41,397 inclusive of interest at 2.35% until maturity in June 2027.</p>	307,528	--
<p>Total SBACF Loans Receivable</p>	2,177,622	2,356,536
<p>Less Current Portion</p>	295,681	480,508
<p>Non-Current SBACF Loans Receivable</p>	\$ 1,881,941	\$ 1,876,028

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	Estimated Lives (in Years)	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets					
Office equipment	5	\$ 18,246	\$ --	\$ --	\$ 18,246
Computer equipment	5	32,555	1,590	(755)	33,390
Furnity and fixtures	5	<u>120,695</u>	<u>--</u>	<u>--</u>	<u>120,695</u>
 Total Capital Assets		 <u>171,496</u>	 <u>1,590</u>	 <u>(755)</u>	 <u>172,331</u>
 Less Accumulated Depreciation					
Office equipment		6,830	3,649	--	10,479
Computer equipment		13,521	5,919	(755)	18,685
Furniture and fixtures		<u>120,694</u>	<u>--</u>	<u>--</u>	<u>120,694</u>
 Total Accumulated Depreciation		 <u>141,045</u>	 <u>9,568</u>	 <u>(755)</u>	 <u>149,858</u>
 Capital Assets, Net		 <u>\$ 30,451</u>	 <u>\$ (7,978)</u>	 <u>\$ --</u>	 <u>\$ 22,473</u>

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 7 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2017 is as follows:

	Estimated Lives (in Years)	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets					
Office equipment	5	\$ 18,246	\$ --	\$ --	\$ 18,246
Computer equipment	5	35,004	10,880	(13,329)	32,555
Furnity and fixtures	5	<u>120,695</u>	<u>--</u>	<u>--</u>	<u>120,695</u>
Total Capital Assets		<u>173,945</u>	<u>10,880</u>	<u>(13,329)</u>	<u>171,496</u>
Less Accumulated Depreciation					
Office equipment		3,181	3,649	--	6,830
Computer equipment		21,874	4,976	(13,329)	13,521
Furniture and fixtures		<u>120,522</u>	<u>172</u>	<u>--</u>	<u>120,694</u>
Total Accumulated Depreciation		<u>145,577</u>	<u>8,797</u>	<u>(13,329)</u>	<u>141,045</u>
Capital Assets, Net		<u>\$ 28,368</u>	<u>\$ 2,083</u>	<u>\$ --</u>	<u>\$ 30,451</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

SUBSIDY PROGRAM

Under an Interest Rate Subsidy (the “Subsidy”) Program, discontinued in 2002, the Corporation pledged to subsidize 1% of the interest charges of certain institutions’ long-term debt. To fund this commitment, the Corporation reserved the estimated net present value of the Subsidy. As of June 30, 2018 and 2017, remaining commitments on existing Subsidies expiring through 2023 aggregate approximately \$65,100 and \$80,200, respectively.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEASE COMMITMENT

In April 2016, the Corporation entered into a five-year operating lease agreement for office space, expiring May 31, 2021. Rental expense for the fiscal years ended June 30, 2018 and 2017 was \$92,906 and \$90,426, respectively. Future minimum lease payments are as follows:

Years Ending June 30,		
2019	\$	95,933
2020		98,810
2021		<u>93,056</u>
	\$	<u>287,799</u>

SCHOOL BUILDING AUTHORITY CAPITAL FUND COMMITMENTS

At June 30, 2018 and 2017, the SBACF had approximately \$949,000 and \$12,322,000, respectively, of uncommitted funds available for future project awards under its program. Project awards include grants and loans (see Note 1, *School Building Authority Capital Fund*, for additional information).

Grants and loans awarded (cumulative) and remaining unspent balances available for draw as of June 30, 2018, are as follows:

	Awarded			Balances Available		
	Total	Grants	Loans	Total	Grants	Loans
Central Falls	\$ 5,576,688	\$ 5,576,688	\$ --	\$ 2,462,289	\$ 2,462,289	\$ --
Charlho	274,500	274,500	--	259,082	259,082	--
East Providence	913,283	913,283	--	377,238	377,238	--
Foster Glocester	15,510	15,510	--	15,510	15,510	--
North Providence	144,596	144,596	--	51,825	51,825	--
Pawtucket	3,160,823	3,160,823	--	4,359,220	4,359,220	--
Providence	7,779,929	7,438,231	341,698	3,120,662	3,120,662	--
Scituate	36,887	36,887	--	36,887	36,887	--
Woonsocket	<u>3,307,786</u>	<u>3,307,786</u>	--	<u>2,053,432</u>	<u>2,053,432</u>	--
	<u>\$21,210,002</u>	<u>\$20,868,304</u>	<u>\$ 341,698</u>	<u>\$12,736,145</u>	<u>\$12,736,145</u>	<u>\$ --</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

SCHOOL BUILDING AUTHORITY CAPITAL FUND COMMITMENTS (CONTINUED)

Grants and loans awarded (cumulative) and remaining unspent balances available for draw as of June 30, 2017, are as follows:

	Awarded			Balances Available		
	Total	Grants	Loans	Total	Grants	Loans
Barrington	\$ 22,750	\$ 22,750	\$ --	\$ 4,256	\$ 4,256	\$ --
Beacon Charter	67,500	67,500	--	--	--	--
Bristol Warren	1,335,559	1,335,559	--	207,296	207,296	--
Burriville	562,366	562,366	--	23,695	23,695	--
Central Falls	469,468	469,468	--	29,481	29,481	--
Cranston	263,160	263,160	--	--	--	--
East Providence	268,770	268,770	--	--	--	--
Foster	104,786	104,786	--	48,804	48,804	--
Foster Gloster	371,690	371,690	--	--	--	--
Kingston Hill Academy	24,375	24,375	--	18,712	18,712	--
Middletown	73,500	73,500	--	--	--	--
New Shoreham	20,300	20,300	--	20,300	20,300	--
North Providence	500,000	282,000	218,000	--	--	--
Pawtucket	6,769,670	6,417,670	352,000	2,890,107	2,883,045	7,062
Portsmouth	373,434	373,434	--	19,926	19,926	--
Providence	9,894,789	8,064,253	1,830,536	--	--	--
Tiverton	161,000	161,000	--	135,821	135,821	--
Woonsocket	621,192	621,192	--	332,718	332,718	--
	<u>\$21,904,309</u>	<u>\$19,503,773</u>	<u>\$ 2,400,536</u>	<u>\$ 3,731,116</u>	<u>\$ 3,724,054</u>	<u>\$ 7,062</u>

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 9 - NET POSITION DESIGNATIONS

The Board of Directors of the Corporation (the "Board") has designated certain unrestricted net position of the Corporation for the years ended June 30, 2018 and 2017 as follows:

SELF-INSURANCE

This designation was established to provide for the deductible exclusion for existing Corporation insurance policies. The Board designated \$1,000,000 of net position for self-insurance at June 30, 2018 and 2017.

OPERATING RESERVES

This designation was established to provide for expenditures incurred as a result of operating contingencies. The Board designated \$2,250,000 of net position for operating reserves at June 30, 2018 and 2017.

FINANCIAL ASSISTANCE PROGRAM

This designation was established to provide eligible institutions with a grant or a direct loan for the funding of qualified projects. The Board designated \$1,750,000 and \$6,500,000 of net position for financial assistance at June 30, 2018 and 2017, respectively.

DEBT SERVICE RESERVE

This designation was established to provide a reserve available to make debt payments should the borrower not have sufficient funds. The Board designated \$2,000,000 of net position for debt service reserve at June 30, 2018 and 2017.

NOTE 10 – STATE APPROPRIATION

During the year ended June 30, 2018, the School Building Authority Capital Fund received \$10,364,079 in State Appropriations for the purpose of providing school facilities project cost funding to cities, towns and local education agencies.

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 11 - OTHER INCOME

Other income for the year ended June 30, 2018 consists of investment earnings from the housing aid account. Pursuant to Rhode Island General Law 45-38.2-7, any other funds permitted by law which the corporation in its discretion shall determine shall be deposited into the School Building Authority Capital Fund.

NOTE 12 – TRANSFER TO STATE

In accordance with Rhode Island Public Law 17-302, Article 1, the Corporation was required to transfer \$6,000,000 to the State of Rhode Island during the year ended June 30, 2018.

NOTE 13 - PENSION PLAN

The Corporation sponsors and contributes to the Rhode Island Health and Educational Building Corporation 403(b) Retirement Plan (the "Plan"), a defined contribution pension plan operated in accordance with Section 403(b) of the Internal Revenue Code and administered by the Vanguard Fiduciary Trust Company. The Board established the Plan and maintains the ability to amend the Plan's provisions, including employer contribution rates. All full-time employees of the Corporation enter the Plan after six months of service. The Corporation contributes 10% of participants' salaries and employee contributions are optional per the Plan documents. The Corporation's contributions to the Plan totaled \$47,697 and \$42,908 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 2, 2018, the date for which the financial statements were made available for issuance. Management did not identify any events subsequent to June 30, 2018 requiring recognition or disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2018

	RIHEBC	SBACF	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 257,359	\$ --	\$ 257,359
Cash and cash equivalents - restricted	--	13,862,749	13,862,749
Investments	6,439,097	--	6,439,097
Current portion of loans receivable	71,541	--	71,541
Current portion of School Building Authority Capital Fund loan receivable	--	295,681	295,681
Accounts receivable	27,129	--	27,129
Prepaid expenses	55,629	--	55,629
Accrued interest receivable	1,312	3,488	4,800
Total Current Assets	<u>6,852,067</u>	<u>14,161,918</u>	<u>21,013,985</u>
Non-Current Assets			
Loans receivable, net of current portion	637,499	--	637,499
School Building Authority Capital Fund loans receivable	--	1,881,941	1,881,941
Investments	80,000	--	80,000
Capital assets, net	22,473	--	22,473
Total Non-Current Assets	<u>739,972</u>	<u>1,881,941</u>	<u>2,621,913</u>
Total Assets	<u>\$ 7,592,039</u>	<u>\$ 16,043,859</u>	<u>\$ 23,635,898</u>
Liabilities and Net Position			
Current Liabilities			
Accrued expenses	\$ 121,738	\$ --	\$ 121,738
Project cost grants payable	--	2,358,578	2,358,578
Grants payable	250,000	--	250,000
Total Liabilities	<u>371,738</u>	<u>2,358,578</u>	<u>2,730,316</u>
Net Position			
Net investment in capital assets	22,473	--	22,473
Restricted - School Building Authority Capital Fund:			
Held for authorized projects	--	12,736,145	12,736,145
Available for future projects	--	949,136	949,136
Unrestricted	7,197,828	--	7,197,828
Total Net Position	<u>7,220,301</u>	<u>13,685,281</u>	<u>20,905,582</u>
Total Liabilities and Net Position	<u>\$ 7,592,039</u>	<u>\$ 16,043,859</u>	<u>\$ 23,635,898</u>

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

**COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2018

	RIHEBC	SBACF	Total
Operating Revenues			
Administration fees	\$ 2,388,962	\$ --	\$ 2,388,962
State appropriations	--	10,364,079	10,364,079
Interest earned on loans receivable	18,737	43,446	62,183
Total Operating Revenues	<u>2,407,699</u>	<u>10,407,525</u>	<u>12,815,224</u>
Operating Expenses			
Administrative	1,500,127	10,560	1,510,687
Project cost grants	--	12,875,975	12,875,975
Grants	250,000	--	250,000
Depreciation	9,568	--	9,568
Total Operating Expenses	<u>1,759,695</u>	<u>12,886,535</u>	<u>14,646,230</u>
Operating Income (Loss)	648,004	(2,479,010)	(1,831,006)
Non-Operating Revenues			
Net investment income	173,221	--	173,221
Other income	--	89,560	89,560
Interest earned on restricted cash	--	22,099	22,099
Total Non-Operating Revenues	<u>173,221</u>	<u>111,659</u>	<u>284,880</u>
Transfer to State	<u>(6,000,000)</u>	<u>--</u>	<u>(6,000,000)</u>
Decrease in Net Position	(5,178,775)	(2,367,351)	(7,546,126)
Net Position - Beginning of Year	<u>12,399,076</u>	<u>16,052,632</u>	<u>28,451,708</u>
Net Position - End of Year	<u>\$ 7,220,301</u>	<u>\$ 13,685,281</u>	<u>\$ 20,905,582</u>

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

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

SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

Government Finance Officers Association Webinar, Better Budgeting - October 5, 2017

<u>Date Paid</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
8/30/2017	Scott O'Malley	Registration	\$ <u>135.00</u>

Greater Providence Chamber of Commerce (GPCC), Legislative Luncheon - Providence RI, January 31, 2018

<u>Date Paid</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
12/18/2017	GPCC	Registration	75.00
12/18/2017	GPCC	Registration	75.00
			<u>150.00</u>

National Association of Health & Educational Facilities Finance Authorities (NAHEFFA) - Boston MA, May 7 - 8, 2018

<u>Date Paid</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
4/6/2018	NAHEFFA	Registration	450.00
4/6/2018	NAHEFFA	Registration	450.00
4/6/2018	NAHEFFA	Registration	450.00
4/6/2018	NAHEFFA	Registration	450.00
5/10/2018	Scott O'Malley	Transportation	58.00
5/10/2018	Robert Donovan	Transportation	57.00
			<u>1,915.00</u>

Greater Providence Chamber of Commerce, Economic Outlook Luncheon - Providence RI, June 22, 2018

<u>Date Paid</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
6/8/2018	Scott O'Malley	Registration	<u>150.00</u>

Total \$ 2,350.00

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2018

Statement of Net Position

Attachment B

Assets

Current assets:

Cash and cash equivalents	\$ 257,359
Investments	6,439,097
Receivables	399,151

Restricted assets:

Cash and cash equivalents - SBACF	13,862,749
Other assets	<u>55,629</u>

Total current assets 21,013,985

Noncurrent assets:

Investments	80,000
Receivables	2,519,440
Capital assets - depreciable, net	<u>22,473</u>

Total noncurrent assets 2,621,913

Total assets 23,635,898

Liabilities

Current liabilities:

Accounts payable	2,608,578
Other current liabilities	<u>121,738</u>

Total current liabilities 2,730,316

Total liabilities 2,730,316

Net Position

Net investment in capital assets 22,473

Restricted for:

School Building Authority Capital Fund	13,685,281
Unrestricted	<u>7,197,828</u>

Total net position \$ 20,905,582

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**

(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

FOR THE YEAR ENDED JUNE 30, 2018

<u>Statement of Activities</u>	<u>Attachment C</u>
Expenses	\$ <u>14,646,230</u>
Program revenues:	
Charges for services	2,451,145
Operating grants and contributions	<u>10,364,079</u>
Total program revenues	<u>12,815,224</u>
Net (expenses) revenues	<u>(1,831,006)</u>
General revenues:	
Interest and investment earnings	195,320
Other income	<u>89,560</u>
Total general revenues	<u>284,880</u>
Transfer to State	<u>(6,000,000)</u>
Change in net position	(7,546,126)
Total net position - beginning	<u>28,451,708</u>
Total net position - ending	\$ <u><u>20,905,582</u></u>

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island Health and Educational Building Corporation (a component unit of the State of Rhode Island) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Rhode Island Health and Educational Building Corporation's basic financial statements, and have issued our report thereon dated October 2, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Significant Deficiency – Segregation of Duties

Condition: While the Corporation's policies and procedures address segregation of duties matters, we noted instances where the design of compensating controls, and the documentation of the application of control procedures, can be strengthened.

Criteria: A system of internal controls should be in place to provide for proper separation of incompatible duties and ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of performing their assigned functions. At the most basic level, no individual should have control over two or more phases of a transaction, including the authorization of financial activity and the general ledger posting and reporting functions.

Cause: Limited number of finance staff within the Corporation.

Effect: Inadequate segregation of duties and lack of related compensating controls could result in increased risk for errors or intentional/unintentional misuse of the Corporation's assets.

Recommendation: We realize that proper segregation is not always possible in a small organization. In those instances where duties cannot be fully segregated, compensating controls should be implemented to reduce the risk of errors. Specifically, we recommend the following:

- Incoming payments – We recommend that the Administrative Assistant maintain a log of all incoming payments in connection with restrictively endorsing the checks at time of receipt. Someone independent of the accounting process should then reconcile the log to the general ledger on a periodic basis to ensure completeness.
- Disbursements – We recommend that the Executive Director review the monthly bank statements for unusual items, and the bank reconciliations for agreement to the general ledger and timeliness of performance. In addition, a periodic review of positive pay uploads to the corporation's financial institutions is recommended.
- Documentation – Evidence of the performance of all mitigating procedures should be maintained.

Implementation of these functions will help mitigate the risk of improper financial reporting or misappropriation of the Corporation's assets.

View of Responsible Officials: Management agrees with the finding. See the Corrective Action Plan.

Compliance and Other Matters

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

Rhode Island Health and Educational Building Corporation's Response to Findings

Rhode Island Health and Educational Building Corporation's response to the finding identified in our audit is described previously. Rhode Island Health and Educational Building Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Marcum LLP

Providence, RI
October 2, 2018



Significant Deficiency – Segregation of Duties

View of Responsible Officials and Planned Corrective Action:

The Corporation has implemented the corrective actions as recommended by the auditor. Specifically, the Administrative Assistant now maintains a log of all cash receipts which is submitted to the Executive Director for comparison to the monthly bank statement. In addition, the Executive Director now reviews the monthly bank statements, cash reconciliations, and payroll reports.