

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Financial Statements and Management's Discussion and Analysis

June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Rhode Island Health and Educational Building Corporation (the "Corporation") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but is supplementary information required by United States of America generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 17, 2015

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

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, 2015 and 2014. 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 (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 regarding the Corporation's assets and liabilities. Net position represents total assets less total liabilities. Increases or decreases in net position generally indicate whether the financial health of the Corporation is improving or deteriorating.

Statements of Revenues, Expenses and Changes in Net Position – Presents the Corporation's operating revenues, operating expenses, non-operating revenues and changes in net position. The change in net position measures the success of operations over the fiscal year and demonstrates whether the Corporation's revenues exceeded expenses for the fiscal year.

Statements of Cash Flows – Presents cash flows from operating, capital financing, and investing activities. The statement of cash flows provides detailed information on the Corporation's cash receipts and cash disbursements.

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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

FINANCIAL HIGHLIGHTS – FY 2015

- Total assets for FY 2015 are \$12,334,434, which is an increase of \$922,760 or 8% over total assets for FY 2014.
- Cash and investments for FY 2015 are \$10,758,494, which is an increase of \$783,216 or 8% over cash and investments for FY 2014.
- Operating revenues for FY 2015 are \$2,341,668, which is a decrease of \$34,076 or 1% over operating revenues for FY 2014.
- Operating expenses for FY 2015 are \$1,562,949, which is a decrease of \$12,533 or 1% over operating expenses for FY 2014.
- Change in net position for FY 2015 is \$815,690, which is a decrease of \$30,366 or 4% over the change in net position for FY 2014.

FINANCIAL HIGHLIGHTS – FY 2014

- Total assets for FY 2014 are \$11,411,674, which is an increase of \$839,183 or 8% over total assets for FY 2013.
- Cash and investments for FY 2014 are \$9,975,278, which is an increase of \$1,124,938 or 13% over cash and investments for FY 2013.
- Operating revenues for FY 2014 are \$2,375,744, which is an increase of \$18,426 or 1% over operating revenues for FY 2013.
- Operating expenses for FY 2014 are \$1,575,482, which is an increase of \$98,867 or 7% over operating expenses for FY 2013.
- Change in net position for FY 2014 is \$846,056, which is a decrease of \$74,729 or 8% over the change in net position for FY 2013.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

FINANCIAL ANALYSIS

Condensed Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets, net	\$ 20,453	\$ 11,264	\$ 14,581
Other assets	<u>12,313,981</u>	<u>11,400,410</u>	<u>10,557,910</u>
Total Assets	12,334,434	11,411,674	10,572,491
Other liabilities	<u>301,589</u>	<u>194,519</u>	<u>201,392</u>
Total Liabilities	<u>301,589</u>	<u>194,519</u>	<u>201,392</u>
Net investment in capital assets	20,453	11,264	14,581
Unrestricted	<u>12,012,392</u>	<u>11,205,891</u>	<u>10,356,518</u>
Total Net Position	\$ <u>12,032,845</u>	\$ <u>11,217,155</u>	\$ <u>10,371,099</u>

Total Assets

The consecutive increases in total assets reflect the steady growth of the Corporation. The largest component of the Corporation's total assets are investments (82%). The majority of the Corporation's investments consist of U.S. government securities (54%), with the second major investment component being a state-offered mutual fund (23%). Positive changes in net position have allowed the Corporation's cash and investments to increase each year. For FY 2015 investments increased by \$278,352 or 3%, while cash increased \$504,864 or 152%. For FY 2014 investments increased by \$1,629,620 or 20%, while cash decreased \$504,683 or 60%.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

Total Liabilities

Total liabilities increased 55% for FY 2015 when compared to FY 2014 due to various outstanding payables due to the Corporation's financial advisors and legal counsel. The 3% decrease in liabilities for FY 2014 is the result of fewer payables due to the Corporation's legal counsel and financial advisors when compared to FY 2013.

Total Net Position

As required by GASB 45, the Corporation's net position is classified as either net investment in capital assets and 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 nature of these specifications, however, do not meet the requirements of GASB 45 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.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Administrative fees	\$ 2,306,840	\$ 2,328,565	\$ 2,284,034
Interest income	<u>73,662</u>	<u>92,973</u>	<u>113,366</u>
Total Revenues	<u>2,380,502</u>	<u>2,421,538</u>	<u>2,397,400</u>
Expenses:			
Personnel	599,622	586,848	561,248
Operating	311,419	291,332	270,862
Financing	<u>653,771</u>	<u>697,302</u>	<u>644,505</u>
Total Expenses	<u>1,564,812</u>	<u>1,575,482</u>	<u>1,476,615</u>
Changes in Net Position	\$ <u>815,690</u>	\$ <u>846,056</u>	\$ <u>920,785</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

Revenues

Administrative fees are the annual fees the Corporation charges its borrowers based on the outstanding principal amount of the conduit debt. Administrative fees are the largest source of revenue for the Corporation, representing 97% of total operating revenues for FY 2015. Administrative fee revenue decreased 1% for the year when compared to FY 2014. The amount of conduit debt outstanding as of June 30, 2015 decreased \$71.6 million from June 30, 2014, causing the decrease in administrative fee revenue.

Administrative fee revenue represented 96% of total operating revenues for FY 2014 and increased 2% when compared to FY 2013. The increase is attributable to the amount of conduit debt outstanding increasing \$64.4 million from FY 2013.

Interest income is composed of interest received from investments and from direct loans. While interest income from investments has remained steady, interest income from direct loans has decreased 26% for FY 2015 and 36% for FY 2014. These decreases are attributable to the aging loans portfolio and a decrease in loan activity. As the balance on outstanding loans decrease so does the interest income generated from those loans.

Expenses

Financing expenses are the expenses the Corporation incurs when providing financing. The Corporation issued \$348,437,000 of conduit debt during FY 2015, a decrease of \$140.3 million when compared to FY 2014. As a result, financing expenses decreased 6% for FY 2015

The Corporation issued \$488,760,000 of conduit debt during FY 2014, an increase of \$131.8 million when compared to FY 2013. As a result, financing expenses increased 8% for FY 2014.

Personnel and operating expenses increased 2% and 7% respectively for FY 2015. The increase in operating expenses is attributable to an increase in miscellaneous expenses of \$17,338 or 57% when compared to FY 2014 due to the engagement of advocacy services by the Corporation.

Personnel and operating expenses increased 5% and 8% respectively for FY 2014. The increase in operating expenses is attributable to advertising expenses of \$15,400. The Corporation requests proposals from qualified firms to serve and bond counsel and financial advisors every two years. There were no advertising expenses for FY 2013.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2015 and 2014

CONDUIT DEBT

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bonds Payable	\$ <u>3,089,908,836</u>	\$ <u>3,161,538,674</u>	\$ <u>3,097,079,221</u>

The Corporation issued \$348,437,000 of conduit debt during FY 2015. Of that amount, approximately \$74,477,207 was issued to finance new projects and \$273,959,793 was issued to refund or defease prior bonds.

The Corporation issued \$488,760,000 of conduit debt during FY 2014. Of that amount, approximately \$323,010,533 was issued to finance new projects and \$165,749,467 was issued to refund or defease prior bonds.

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

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, 170 Westminster Street, Suite 1200, Providence, RI 02903, or visit our website at www.rihebc.com.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Net Position

June 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and equivalents	\$ 837,668	\$ 332,804
Investments	9,595,826	9,232,474
Current portion of loans receivable	403,803	308,541
Accounts receivable	53,419	48,089
Prepaid expenses	50,842	40,074
Accrued interest receivable	<u>4,571</u>	<u>6,832</u>
Total Current Assets	<u>10,946,129</u>	<u>9,968,814</u>
Non-Current Assets:		
Loans receivable, net of current portion	1,042,852	1,021,596
Investments	325,000	410,000
Capital assets, net	<u>20,453</u>	<u>11,264</u>
Total Non-Current Assets	<u>1,388,305</u>	<u>1,442,860</u>
Total Assets	<u>12,334,434</u>	<u>11,411,674</u>

LIABILITY

Current Liability:		
Accrued expenses	<u>301,589</u>	<u>194,519</u>

NET POSITION

Net investment in capital assets	20,453	11,264
Unrestricted	<u>12,012,392</u>	<u>11,205,891</u>
Total Net Position	<u>\$ 12,032,845</u>	<u>\$ 11,217,155</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Administrative fees	\$ 2,306,840	\$ 2,328,565
Interest earned on loans receivable	<u>34,828</u>	<u>47,179</u>
Total Operating Revenues	<u>2,341,668</u>	<u>2,375,744</u>
Operating Expenses:		
Administrative	1,557,403	1,567,412
Depreciation	<u>5,546</u>	<u>8,070</u>
Total Operating Expenses	<u>1,562,949</u>	<u>1,575,482</u>
Operating Income	778,719	800,262
Non-Operating Revenue (Expenses):		
Loss on disposal of capital assets	(1,863)	-
Net investment income	<u>38,834</u>	<u>45,794</u>
Total Non-Operating Revenues	<u>36,971</u>	<u>45,794</u>
Increase in Net Position	815,690	846,056
Net Position, at Beginning of Year	<u>11,217,155</u>	<u>10,371,099</u>
Net Position, at End of Year	<u>\$ 12,032,845</u>	<u>\$ 11,217,155</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statements of Cash Flows

For the Years Ended June 30,

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from institutions for administrative fees	\$ 2,301,510	\$ 2,306,876
Cash received for interest on loans receivable	37,089	48,126
Payment of administrative expenses	<u>(1,461,101)</u>	<u>(1,568,013)</u>
Net Cash Provided by Operating Activities	<u>877,498</u>	<u>786,989</u>
Cash Flows from Capital and Related Financing Activity:		
Purchase of fixed assets	<u>(16,598)</u>	<u>(4,753)</u>
Cash Flows from Investing Activities:		
Purchases of investment securities	(12,296,164)	(14,470,492)
Proceeds from sale and maturities of investment securities	12,017,813	12,840,871
Issuance of loans receivable	(424,065)	(350,000)
Payments received on loans receivable	307,546	646,908
Net investment income	<u>38,834</u>	<u>45,794</u>
Net Cash Applied to Investing Activities	<u>(356,036)</u>	<u>(1,286,919)</u>
Net Increase (Decrease) in Cash and Equivalents	504,864	(504,683)
Cash and Equivalents, Beginning of Year	<u>332,804</u>	<u>837,487</u>
Cash and Equivalents, End of Year	<u>\$ 837,668</u>	<u>\$ 332,804</u>
Reconciliation of Net Operating Income to Net Cash		
Provided by Operating Activities:		
Net Operating Income	\$ 778,719	\$ 800,262
Adjustments to reconcile net operating income to net cash		
operating activities:		
Depreciation	5,546	8,070
Changes in assets and liabilities:		
Accounts receivable	(5,330)	(21,689)
Prepaid expenses	(10,768)	6,272
Accrued interest receivable	2,261	947
Accrued expenses	<u>107,070</u>	<u>(6,873)</u>
Net Cash Provided by Operating Activities	<u>\$ 877,498</u>	<u>\$ 786,989</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements

June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies

Organization

Rhode Island Health and Educational Building Corporation (the "Corporation") is a related organization of the State of Rhode Island (the "State") for financial reporting purposes. The purposes of the Corporation are to aid eligible institutions in the educational and 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.

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

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

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation's financial statements are prepared in accordance with generally accepted accounting principles as practiced in the United States of America (US GAAP).

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

The principal operating revenues of the Corporation are administrative fees relating to various bonds and notes outstanding, which are recognized as revenue as of the periodic billing date. Operating expenses consist predominantly of administrative expenses, which are recognized as incurred. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities primarily consist of gains or losses relating to investments or disposals of fixed assets.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies - Continued

Cash and Equivalents

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

Investments

Investments are stated at fair value. The Board of Directors approves all investments of the Corporation. The Board's policy is to invest in securities with an A-1 credit rating or greater, and a maturity of less than two years.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Allowances for potential credit losses are determined by considering the financial condition of its customers and other economic factors affecting the customers and their industries. As of the balance sheet date, management is of the opinion that an allowance for doubtful accounts is not necessary.

Prepaid Expenses

Prepaid expenses consist of payments related to insurance and deposits for the years ended June 30, 2015 and 2014.

Capital Assets

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

The Corporation does not have collections of historical treasures, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies - Continued

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, 2015 and 2014. Upon retirement or termination, employees are compensated for all accumulated unused vacation leave. At June 30, 2015 and 2014, compensated absences totaled approximately \$51,000 and \$52,000, respectively.

Net Position

Resources are classified for accounting purposes into the following categories:

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

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 – GASB Statement 73. The provisions of this Statement applicable to the Corporation are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Management has not yet evaluated the effects of the implementation of GASB Statement 73.

Fair Value Measurement and Application – GASB Statement 72, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this Statement, but does not expect any material effect to its financial position.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – GASB Statement 75, is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – GASB Statement 76, supercedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

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 reported in the accompanying financial statements.

At June 30, 2015 and 2014, the bond issues and leases outstanding are as follows:

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2015</u>	<u>Outstanding Principal at 06/30/2014</u>
Lifespan Obligated Group	1996	05/15/2026	\$ 50,305,000	\$ 51,115,000
Roger Williams General Hospital	1998	07/01/2028	-	11,360,000
Newport Hospital	1999	07/01/2029	-	21,150,000
St. Joseph Health Services	1999	10/01/2029	-	16,550,000
Johnson & Wales University	1999	04/01/2029	11,395,000	13,100,000
Roger Williams Realty Corporation	1999	08/01/2028	-	6,310,000
Moses Brown School	2000	03/01/2030	6,615,000	6,950,000
Paul Cuffee School	2002	08/01/2032	2,310,000	2,390,000
International Institute of RI, Inc.	2003	08/01/2033	1,795,000	1,870,000
St. George's School	2003	10/01/2033	-	12,980,000
Brown University, Series B	2003	09/01/2043	42,105,000	42,550,000
The Pennfield School	2004	09/01/2034	-	4,225,000
Brown University	2004	09/01/2025	-	15,550,000
The Groden Center, Series A & B	2004	10/01/2029	3,210,000	3,360,000
Times ² Academy, Inc.	2004	12/15/2024	-	10,780,000
Board of Governors, Series A	2005	09/15/2020	1,280,000	1,465,000
Catholic School Pool Program	2005	04/01/2035	14,385,000	18,520,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Principal at 06/30/2015</u>	<u>Principal at 06/30/2014</u>
Meeting Street School	2005	06/01/2035	\$ 8,020,000	\$ 8,555,000
Board of Governors, Series B	2005	09/15/2025	1,275,000	1,365,000
Paul Cuffee School	2005	10/01/2015	140,000	280,000
Brown University, Series A	2005	05/01/2035	85,500,000	85,500,000
Board of Governors, Series C - G	2005	09/15/2035	66,520,000	69,300,000
Roger Williams University	2005	11/29/2015	218,741	644,230
Lifespan Obligated Group, Series A	2006	05/15/2032	139,895,000	150,105,000
South County Hospital, Series A	2006	09/15/2035	34,465,000	35,915,000
Public Schools Revenue Bonds, Series A	2006	05/15/2023	10,215,000	11,100,000
Catholic School Pool Program	2006	04/01/2036	9,725,000	15,035,000
Providence Public Building Authority	2006	05/15/2027	-	45,955,000
Roger Williams University, Series B	2006	11/15/2036	-	15,435,000
Child & Family Services of Newport County	2006	12/01/2036	-	9,760,000
Public Schools Revenue Bonds, Series A	2007	05/15/2027	26,180,000	27,895,000
NRI Community Services, Inc.	2007	06/01/2037	2,790,000	2,865,000
Brown University	2007	09/01/2037	90,010,000	90,010,000
Public Schools Revenue Bonds, Series B	2007	05/15/2027	13,745,000	14,650,000
CVS-Highlander Charter School	2007	09/01/2037	3,620,000	3,720,000
Public Schools Revenue Bonds, Series C	2007	05/15/2021	7,510,000	8,655,000
Providence Public Building Authority, Series B	2007	05/15/2028	7,970,000	70,380,000
St. Antoine Residence, Series A	2007	11/01/2029	7,065,000	7,400,000
Providence Public Building Authority, Series C	2007	05/15/2028	-	60,845,000
Public Schools Revenue Bonds, Series D	2007	11/15/2027	3,540,000	3,740,000
Home & Hospice Care of RI	2008	02/01/2038	9,064,500	9,314,500
The Learning Community Charter School	2008	02/01/2038	3,490,000	3,578,000
Rhode Island School of Design, Series A & B	2008	08/15/2036	82,145,000	83,625,000
Bryant University	2008	06/01/2035	48,065,000	48,530,000
Providence College	2008	11/01/2036	-	15,975,000
Public Schools Revenue Bonds, Series A	2008	05/15/2029	70,715,000	74,565,000
Roger Williams University, Series A	2008	11/15/2024	15,125,000	16,365,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Principal at 06/30/2015</u>	<u>Principal at 06/30/2014</u>
New England Institute of Technology	2008	03/01/2034	\$ 11,915,000	\$ 12,630,000
Public Schools Revenue Bonds, Series B	2008	05/15/2029	18,040,000	19,100,000
Roger Williams University, Series B	2008	11/15/2038	34,890,000	35,715,000
Board of Governors, Series A & B	2008	09/15/2034	37,935,000	37,935,000
Public Schools Revenue Bonds, Series A	2009	05/15/2024	3,850,000	4,280,000
Lifespan Obligated Group	2009	05/15/2039	114,985,000	114,985,000
Public Schools Revenue Bonds, Series B	2009	05/15/2021	460,000	540,000
Public Schools Revenue Bonds, Series C	2009	05/15/2029	19,395,000	20,385,000
Board of Governors, Series A & B	2009	09/15/2029	25,570,000	26,535,000
Public Schools Revenue Bonds, Series D	2009	05/15/2029	13,015,000	13,645,000
Brown University, Series A	2009	09/01/2039	70,795,000	70,795,000
Public Schools Revenue Bonds, Series E	2009	05/15/2034	65,900,000	68,035,000
St. Antoine Residence, Series A	2009	11/01/2018	4,420,000	5,430,000
Providence Public Building Authority, Series A	2009	06/15/2025	14,920,000	16,400,000
Kent County Memorial Hospital	2009	12/22/2014	-	481,323
Board of Governors, Series A	2010	09/15/2040	22,090,000	22,585,000
New England Institute of Technology, Series A	2010	03/01/2040	36,920,000	37,725,000
Board of Governors, Series B	2010	09/15/2040	40,550,000	41,285,000
Public Schools Revenue Bonds, Series A	2010	05/15/2027	12,575,000	12,575,000
Public Schools Revenue Bonds, Series B	2010	05/05/2020	2,350,000	2,825,000
Thundermist Health Center, Series A	2010	08/01/2020	3,135,708	3,342,458
Public Schools Revenue Bonds, Series C	2010	05/15/2026	3,080,000	3,235,000
Public Schools Revenue Bonds, Series D	2010	05/15/2025	3,059,000	3,298,000
Public Schools Revenue Bonds, Series E	2010	05/15/2025	6,023,000	6,493,000
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	2,310,000	2,360,000
The Providence Community Health Centers, Inc	2010	06/01/2037	10,831,592	11,167,740
St. George's School	2010	10/01/2035	-	3,580,000
St. George's School Line of Credit Note	2010	12/30/2013	-	3,182,500

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Principal at 06/30/2015</u>	<u>Principal at 06/30/2014</u>
Care New England	2010	12/31/2030	\$ 10,001,655	\$ 10,474,254
Public Schools Revenue Bonds, Series A	2011	05/15/2031	5,460,000	5,850,000
Tockwotton Home	2011	01/01/2046	40,600,000	41,900,000
Roger Williams University	2011	11/15/2024	20,380,000	21,975,000
Public Schools Revenue Bonds, Series B	2011	05/15/2031	9,335,000	9,740,000
Public Schools Revenue Bonds, Series C	2011	05/15/2031	12,320,000	13,095,000
Compass School, Series A - C	2011	06/28/2027	1,580,000	1,685,000
Brown University	2011	09/01/2032	59,190,000	63,170,000
Blackstone Valley Community Health Care, Inc.	2011	01/01/2022	5,999,941	6,182,122
Care New England	2011	08/01/2031	13,829,138	14,469,311
Steere House	2011	09/01/2036	4,958,000	5,099,000
Portsmouth Abbey School	2011	10/01/2031	5,280,000	5,555,000
Ocean State Assisted Living	2011	11/01/2031	10,015,000	10,315,000
Bryant University	2011	12/01/2031	20,825,000	21,660,000
Roger Williams University, Series B	2011	12/15/2029	10,185,000	10,655,000
Tamarisk, Inc.	2011	12/01/2032	9,215,000	9,610,000
Salve Regina University	2011	06/15/2031	25,625,000	27,830,000
Providence College	2012	11/01/2041	36,760,000	37,560,000
Public Schools Revenue Bonds, Series A	2012	05/15/2037	33,230,000	34,180,000
Rhode Island School of Design	2012	06/01/2031	26,335,000	27,005,000
Immaculate Conception School	2012	03/16/2032	5,443,750	5,768,750
Rocky Hill School	2012	04/26/2022	2,929,494	3,018,111
Seven Hills Rhode Island, Inc.	2012	05/31/2042	3,415,000	3,475,000
Brown University	2012	09/01/2022	118,240,000	118,240,000
Blood Center of RI	2012	09/29/2028	8,360,267	8,549,861
Rhode Island School of Design, Series B	2012	08/15/2035	48,835,000	50,350,000
Care New England	2012	09/28/2019	6,546,456	7,943,169
Public Schools Revenue Bonds, Series B	2012	05/15/2032	13,780,000	14,395,000
South County Hospital, Series A & B	2012	09/15/2033	11,000,000	11,365,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Principal at 06/30/2015</u>	<u>Principal at 06/30/2014</u>
The Kent Center, Inc.	2012	10/12/2022	\$ 4,478,285	\$ 4,582,673
Brown University, Series A & B	2012	09/30/2042	15,530,000	1,000,000
Providence College, series B & C	2012	11/01/2024	38,395,000	41,580,000
Bryant University	2013	06/30/2019	4,585,000	5,685,000
Scandanavian Home	2013	04/01/2040	4,052,656	5,000,000
Public Schools Revenue Bonds, Series A	2013	05/15/2033	6,880,000	7,265,000
Public Schools Revenue Bonds, Series B	2013	05/15/2033	11,225,000	12,100,000
Board of Education, Series A - D	2013	09/15/2024	43,410,000	47,200,000
Public Schools Revenue Bonds, Series C & D	2013	05/15/2033	29,700,000	31,355,000
Lifespan Obligated Group	2013	06/14/2020	36,299,683	43,206,462
Seven Hills Rhode Island, Inc.	2013	06/21/2043	1,544,666	1,599,833
St. Elizabeth Manor	2013	07/31/2043	7,986,390	8,000,000
Public Schools Revenue Bonds, Series E	2013	05/15/2028	930,000	1,055,000
La Salle Academy	2013	09/16/2023	4,047,584	4,458,759
The Wheeler School, Series A & B	2013	09/18/2028	7,619,692	7,839,293
The Providence Center, Inc.	2013	02/01/2041	2,624,766	2,685,579
Providence Public Building Authority, Series A	2013	05/15/2024	55,725,000	64,255,000
Roger Williams University, Series A	2013	11/15/2028	19,886,566	21,024,746
Public Schools Revenue Bonds, Series H	2013	05/15/2034	11,085,000	11,310,000
Care New England	2013	09/01/2033	83,110,000	87,385,000
St. Andrew's School	2013	06/01/2043	16,185,000	16,375,000
Brown University	2013	09/01/2043	137,865,000	138,715,000
Public Schools Revenue Bonds, Series I	2013	11/15/2023	8,840,000	9,635,000
Public Schools Revenue Bonds, Series I	2013	11/15/2021	1,835,000	2,115,000
Public Schools Revenue Bonds, Series J	2013	05/15/2020	4,480,000	5,335,000
Care New England	2014	10/01/2042	42,810,000	42,810,000
Bryant University	2014	06/01/2044	46,320,000	47,095,000
Portsmouth Abbey School	2014	07/01/2024	2,021,250	2,100,000
Public Schools Revenue Bonds, Series A	2014	05/15/2034	9,120,000	9,780,000
Public Schools Revenue Bonds, Series B	2014	05/15/2034	3,220,000	-

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Issuance Year</u>	<u>Maturity Date</u>	<u>Principal at 06/30/2015</u>	<u>Principal at 06/30/2014</u>
St. George's School, Series A, B & C	2014	09/01/2044	\$ 44,685,017	\$ -
Times ² Academy, Inc.	2014	10/01/2026	9,957,605	-
Public Schools Revenue Bonds, Series C	2014	05/15/2034	7,785,000	-
Roger Williams University	2014	10/15/2035	15,395,998	-
The Pennfield School, Series A & B	2014	11/01/2039	4,428,591	-
Newport Hospital	2014	07/01/2029	20,390,000	-
Public Schools Revenue Bonds, Series A	2015	11/15/2020	6,540,000	-
Providence Public Building Authority, Series A	2015	05/15/2028	146,325,000	-
Child and Family Services of Newport County	2015	04/30/2043	9,532,042	-
Salve Regina University, Series A, B & C	2015	05/01/2045	27,461,469	-
Mercymount Country Day School	2015	05/01/2035	3,545,334	-
Providence College	2015	11/01/2045	<u>46,910,000</u>	<u>-</u>
			<u>\$ 3,089,908,836</u>	<u>\$ 3,161,538,674</u>

Note 3 - Investments

At June 30, 2015, the Corporation held the following investments:

Maturities within fiscal year ending 2015:	
U.S. Treasury Bills	\$ 2,364,858
Federal Home Loan Bank Consolidated Discount Notes	999,950
Federal Farm Credit Bank Consolidated Bonds	1,992,378
Mutual Funds	2,252,001
City of Central Falls General Obligation Bonds	85,000
Certificates of Deposit	<u>1,901,639</u>
Total Current Portion	\$ <u>9,595,826</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 3 - Investments - Continued

Maturities after fiscal year-end 2015:

City of Central Falls General Obligation Bonds	\$ <u>325,000</u>
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At June 30, 2014, the Corporation held the following investments:

Maturities within fiscal year ending 2014:

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

Maturities after fiscal year-end 2014:

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

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

Credit Risk

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

The City of Central Falls ("City") General Obligation Bond was rated as Ba2 for the year ended December 31, 2014. 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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 3 - **Investments - Continued**

Concentration of Credit Risk

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

Note 4 - **Net Position Designations**

The Board of Directors of the Corporation (the "Board") has designated certain unrestricted net position of the Corporation for the years ended June 30, 2015 and 2014 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, 2015 and 2014.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. The Board designated \$1,500,000 of net position for operating reserves at June 30, 2015 and 2014.

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 \$6,400,000 and \$5,500,000 of net position for the financial assistance program at June 30, 2015 and 2014, 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 the debt service reserve program at June 30, 2015 and 2014.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 5 - Cash and Equivalents

Custodial credit risk is associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the Corporation would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). It is the Corporation's policy to limit its exposure to custodial risk for deposits by maintaining deposit accounts in several institutions in order to maximize coverage by the FDIC. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2015 and 2014, the carrying amount of the Corporation's deposits, which reflect outstanding checks, was \$837,668 and \$332,804, respectively. At June 30, 2015 and 2014, the Corporation had total deposits of \$846,991 and \$410,860, of which \$505,547 and \$385,666, respectively, were covered by the FDIC. These bank balances reflect FDIC insurance and guarantee programs in effect during 2015 and 2014.

Under Rhode Island general laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum insure or pledge collateral equal to one hundred percent of the deposits, which are time deposits with maturities greater than sixty days. Any of these institutions, which do not meet minimum capital standards prescribed by federal regulators, shall insure or pledge eligible collateral equal to one hundred percent of the deposits, regardless of maturity. At June 30, 2015, the Corporation's had no uninsured or uncollateralized deposits.

Note 6 - Loans Receivable

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

	<u>2015</u>	<u>2014</u>
In July 2003, the Corporation entered into a loan agreement with Newport County Community Mental Health Center for \$495,000. In May 2012, the loan was refinanced for \$348,527 and the new agreement stipulates monthly payments of \$4,452 including interest at 2.02% until maturity in May 2019.	\$ 201,057	\$ 249,894

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 6 - Loans Receivable - Continued

	<u>2015</u>	<u>2014</u>
In June 2004, the Corporation entered into a loan agreement with Kent County Visiting Nurse Association for \$300,000. The agreement stipulates monthly payments of \$3,141 including interest of 4.72% until maturity in July 2014.	\$ -	\$ 3,128
In November 2005, the Corporation entered into a loan agreement with the United Methodist Health Center for \$700,000. The agreement stipulates monthly payments of \$4,879 including interest at 4.40% until maturity in November 2015. In June 2015, the loan was refinanced for \$795,000 and the new agreement stipulates monthly payments of \$4,802 including interest at 2.50% until maturity in June 2025.	795,000	411,224
In May 2006, the Corporation entered into a loan agreement with the Board of Governors for Higher Education for \$800,000. The agreement stipulates monthly payments of \$8,388 including interest at 4.75% until maturity in May 2016.	90,112	184,051
In July 2009, the Corporation entered into a loan agreement with Northwest Community Health Care for \$410,000. The agreement stipulates monthly payments of \$4,856 including interest of 3.25% until maturity in July 2017.	117,224	170,737

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 6 - Loans Receivable - Continued

In December 2013, the Corporation entered into a loan agreement with Gateway Healthcare, Inc. for \$350,000. The agreement stipulates monthly payments of \$6,162 including interest of 2.18% until maturity in November 2018.

	<u>243,262</u>	<u>311,103</u>
Total Loans Receivable	1,446,655	1,330,137
Less: Current Portion	<u>403,803</u>	<u>308,541</u>
Long-Term Loans Receivable	\$ <u>1,042,852</u>	\$ <u>1,021,596</u>

Note 7 - Commitments and Contingencies

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 would deposit the estimated net present value of the Subsidy into a separate bank account. As of June 30, 2015, remaining commitments on existing Subsidies expiring through 2023 aggregate \$181,190.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 8 - **Capital Assets**

Capital asset activity for the year ended June 30, 2015 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital Assets:						
Office Equipment	5	\$ 15,548	\$ -	\$ -	\$ -	\$ 15,548
Computer Equipment	5	45,444	14,998	(15,028)	-	45,414
Furniture and Fixtures	5	<u>129,718</u>	<u>1,600</u>	<u>-</u>	<u>-</u>	<u>131,318</u>
Total Capital Assets		<u>190,710</u>	<u>16,598</u>	<u>(15,028)</u>	<u>-</u>	<u>192,280</u>
Less: Accumulated Depreciation:						
Office Equipment		11,270	950	-	-	12,220
Computer Equipment		39,320	4,092	(13,165)	-	30,247
Furniture and Fixtures		<u>128,856</u>	<u>504</u>	<u>-</u>	<u>-</u>	<u>129,360</u>
Total Accumulated Depreciation		<u>179,446</u>	<u>5,546</u>	<u>(13,165)</u>	<u>-</u>	<u>171,827</u>
Capital Assets, Net		\$ <u>11,264</u>	\$ <u>11,052</u>	\$ <u>(1,863)</u>	\$ <u>-</u>	\$ <u>20,453</u>

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

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 9 - Lease Commitment

The Corporation entered into a five-year operating lease agreement for office space expiring December 31, 2017. Rental expense for the fiscal years ended June 30, 2015 and 2014 was \$100,780 and \$95,160, respectively. Future minimum lease payments are as follows:

Years Ending <u>June 30,</u>	
2016	\$ 106,800
2017	109,200
2018	<u>55,200</u>
	<u>\$ 271,200</u>

Note 10 - Pension Plan

The Corporation sponsors and contributes to the Rhode Island Health and Educational Building Corporation 403(b) Retirement Plan (the "Plan"), a defined contribution pension plan operated in accordance with Section 403(b) of the Internal Revenue Code and administered by the Vanguard Fiduciary Trust Company. The Board established the Plan and maintains the ability to amend the Plan's provisions, including employer contribution rates. All full-time employees of the Corporation enter the Plan after six months of service. The Corporation contributes 10% of participants' salaries and employee contributions are optional per the Plan documents. The Corporation's contributions to the Plan totaled \$43,232 and \$41,972 for the fiscal years ended June 30, 2015 and 2014, respectively.

Note 11 - Management's Acceptance of the Financial Statements

Management has evaluated subsequent events through September 17, 2015, the date for which the financial statements were made available for issuance. Management accepted the financial statements and did not identify any events subsequent to June 30, 2015 requiring disclosure in these financial statements.

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island Health and Education Building Corporation (the "Corporation") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and we have issued our report thereon dated September 17, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 17, 2015