

***RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION***

***FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005***

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION (a component unit of the State of Rhode Island) as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Rhode Island Health and Educational Building Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION, as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2006 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on Pages 3 - 5 is not a required part of the financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

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

Prescott Chatillon Fountain & Williams, LLP

September 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Rhode Island Health & Educational Building Corporation's ("the Corporation") annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements provide both long-term and short-term information about the Corporation's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Corporation are included in the Statements of Net Assets.

The Statements of Net Assets report the Corporation's net assets and how they have changed. Net Assets – the difference between the Corporation's assets and liabilities – is one way to measure the Corporation's financial health or position.

FINANCIAL HIGHLIGHTS

The Corporation's total net assets decreased \$3,207,708 (or -26%)
Cash & investments decreased \$5,232,579 (or -57%)
Operating revenues increased \$215,878 (or 12%)
Operating expenses increased \$580,070 (or 48%)
Change in net assets decreased \$3,956,623 (or -528%)

FINANCIAL ANALYSIS OF THE CORPORATION

The following table summarizes the changes in Net Assets between fiscal years ending June 30, 2006, 2005 and 2004.

	<u>2006</u>	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
Fixed assets, net of accumulated depreciation	65,351	87,802	(26%)	108,704	(19%)
Other Assets	<u>9,111,646</u>	<u>11,994,265</u>	(24%)	<u>11,164,653</u>	7%
Total Assets	<u>9,176,997</u>	<u>12,082,067</u>	(24%)	<u>11,273,357</u>	7%

	<u>2006</u>	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
Other Liabilities	<u>432,932</u>	<u>130,294</u>	232%	<u>70,499</u>	85%
Total Liabilities	<u>432,932</u>	<u>130,294</u>	232%	<u>70,499</u>	85%
Invested in capital assets, net of related debt	65,351	87,802	(26%)	108,704	(19%)
Undesignated	<u>8,678,714</u>	<u>11,863,971</u>	(27%)	<u>11,094,154</u>	7%
Total Net Assets	<u>8,744,065</u>	<u>11,951,773</u>	(27%)	<u>11,202,858</u>	7%

The decrease in net assets for the year ended June 30, 2006 is primarily attributed to a \$3,700,000 contribution to the State's general fund. The increase in other liabilities for the year ended June 30, 2006 is attributable to an increase in both contributions payable and accrued expenses.

GASB Statement No. 34 guidelines, which provide the format for Management's Discussion and Analysis, do not allow the recognition of funds designated for specific purposes except under certain limited circumstances. However, the Corporation does designate funds for specific purposes and programs, currently in the amount of \$7,900,000.

The following table summarizes the changes in Operating Income between fiscal years ending June 30, 2006, 2005 and 2004.

	<u>2006</u>	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
Revenues					
Financing Fees	1,838,727	1,686,234	9%	1,514,630	11%
Interest Income	<u>453,495</u>	<u>282,542</u>	64%	<u>198,574</u>	42%
Total Revenues	<u>2,292,222</u>	<u>1,968,776</u>	17%	<u>1,713,204</u>	15%
Expenses					
Personnel Expenses	306,972	293,739	4%	277,901	6%
Operating Expenses	958,650	572,187	69%	572,189	0%
Financing Expenses	534,308	353,934	51%	510,887	(31%)
Contribution to the State	<u>3,700,000</u>	<u>0</u>	100%	<u>0</u>	
Total Expenses	<u>5,499,930</u>	<u>1,219,860</u>	352%	<u>1,360,977</u>	(10%)
Change in Net Assets	<u>(3,207,708)</u>	<u>748,916</u>	(328%)	<u>352,227</u>	113%

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

The Corporation's revenues consist of financing fees which are based on the outstanding principal of the bonds. The Corporation also receives interest income on outstanding loans to various institutions. Interest income on investments accrues to the benefit of the program for which the underlying source of income is designated.

Financing fee revenues increased for the years ended June 30, 2006 and 2005 due to increases in bonds outstanding. Financing fee revenue is relative to the volume of bonds outstanding. Interest income increased for the years ended June 30, 2006 and 2005 due to the rise in interest rates over the periods. The increases in personnel expenses for the years ended June 30, 2006 and 2005 are due to the increased costs of providing employee benefits. Operating expenses increased for the year ended June 30, 2006 due to increased grant allocation. The decrease in financing expenses for the year ended June 30, 2005 is due to a lower level of bond financings as compared to fiscal years 2004 and 2006. Financing expenses fluctuate based on the volume of services provided to client institutions.

CONDUIT DEBT

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

The following table summarizes the changes in conduit debt between fiscal years ending June 30, 2006, 2005, and 2004:

	<u>2006</u>	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
Bonds Payable	1,861,192,452	1,703,029,871	9%	1,606,092,010	6%

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide Rhode Island citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Corporation's finances and demonstrate the Corporation's accountability. If you have questions about this report or need additional financial information, contact Rhode Island Health & Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903, or visit our website at www.rihebc.com.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 276,057	\$ 303,233
Investments	3,720,186	8,925,589
Current portion of loans receivable	658,289	511,575
Accounts receivable	86,478	2,753
Prepaid expenses	38,661	24,018
Accrued interest receivable	29,591	6,771
Total current assets	<u>4,809,262</u>	<u>9,773,939</u>
Noncurrent assets:		
Loans receivable, net of current portion	4,302,384	2,220,326
Fixed assets, net of accumulated depreciation	65,351	87,802
Total noncurrent assets	<u>4,367,735</u>	<u>2,308,128</u>
Total assets	<u>9,176,997</u>	<u>12,082,067</u>
LIABILITIES:		
Current liabilities:		
Accrued liabilities	130,632	58,276
Contributions payable	302,300	72,018
Total current liabilities	<u>432,932</u>	<u>130,294</u>
Total liabilities	<u>432,932</u>	<u>130,294</u>
NET ASSETS:		
Invested in capital assets, net	65,351	87,802
Unrestricted	8,678,714	11,863,971
Total net assets	<u>\$ 8,744,065</u>	<u>\$ 11,951,773</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Administrative fees	\$ 1,838,727	\$ 1,686,234
Interest earned on loans receivable	177,064	113,679
Total operating revenues	<u>2,015,791</u>	<u>1,799,913</u>
Operating expenses:		
Administrative expense	1,766,991	1,189,191
Depreciation expense	32,939	30,669
Total operating expenses	<u>1,799,930</u>	<u>1,219,860</u>
Operating income	215,861	580,053
Non-operating revenues (expenses):		
Investment earnings	276,431	168,862
Transfer to state	(3,700,000)	
Total non-operating revenues (expenses):	<u>(3,423,569)</u>	168,862
Change in net assets	(3,207,708)	748,915
Net assets, beginning of the year	<u>11,951,773</u>	<u>11,202,858</u>
Net assets, end of the year	<u>\$ 8,744,065</u>	<u>\$ 11,951,773</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from Institutions for administrative costs	\$ 1,755,002	\$ 1,737,833
Cash received for interest on loans receivable	154,244	109,488
Payment of administrative expenses	(1,478,996)	(1,117,531)
Cash received for school housing aid	962,996	-
Disbursement of school housing aid	(962,996)	-
Net cash provided by operating activities	<u>430,250</u>	<u>729,790</u>
Cash flows for non-capital financing activities:		
Transfer to state	<u>(3,700,000)</u>	-
Cash flows for capital and related financing activities:		
Purchase of fixed assets	<u>(10,489)</u>	<u>(13,403)</u>
Cash flows from investing activities:		
Purchase of investment securities	(23,439,197)	(27,147,153)
Proceeds from sale and maturities of investment securities	28,644,601	26,359,019
Issuance of loans receivable	(2,775,000)	(538,057)
Payments received on loans receivable	546,228	435,397
Investment earnings	276,431	168,862
Net cash (used for) provided by investing activities	<u>3,253,063</u>	<u>(721,932)</u>
Net increase (decrease) in cash and cash equivalents	(27,176)	(5,545)
Cash and cash equivalents, beginning of the year	<u>303,233</u>	<u>308,778</u>
Cash and cash equivalents, end of the year	<u>\$ 276,057</u>	<u>\$ 303,233</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 215,861	\$ 580,053
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	32,939	30,669
Loss on disposal of fixed asset	-	3,635
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(83,725)	51,599
(Increase) decrease in prepaid expenses	(14,643)	8,230
(Increase) decrease in accrued interest receivable	(22,820)	(4,191)
Increase (decrease) in accrued liabilities	72,356	36,777
Increase (decrease) in contributions payable	230,282	23,018
Total adjustments	<u>214,389</u>	<u>149,737</u>
Net cash provided by operating activities	<u>\$ 430,250</u>	<u>\$ 729,790</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Corporation is a component unit of the State of Rhode Island for financial reporting purposes. Accordingly, the Corporation's financial statements are included in the State of Rhode Island's Annual Financial Report.

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

Recently Issued Accounting Standards

The Corporation has implemented GASB No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, for the year ended June 30, 2006. The adoption of this Statement did not have an impact on the Corporation's financial position or results of operations.

The Corporation has implemented GASB No. 46, Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34), for the year ended June 30, 2006. The adoption of this Statement did not have an impact on the Corporation's financial position or results of operations.

The Corporation has implemented GASB No. 47, Accounting for Termination Benefits, for the year ended June 30, 2006. The adoption of this Statement did not have an impact on the Corporation's financial position or results of operation.

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

- ✓ GASB Statement No. 45 – Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions, effective for the Corporation's fiscal year ending June 30, 2008.

The impact of this pronouncement on the Corporation's financial statements has not been determined.

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

Net Assets

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Investments

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

Use of Estimates

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

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

The cost of fixed assets used by the Corporation is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 5 years. A \$1,000 threshold for capitalization is utilized. Fixed asset activity for the years ended June 30, 2006 and 2005 was as follows:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Office furniture and equipment	\$162,664	\$10,489	(\$455)	\$172,698
Accumulated depreciation	(74,862)	(32,940)	455	(107,347)
Net Fixed Assets	\$ 87,802	\$(22,451)	\$0	\$65,351
	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Office furniture and equipment	\$157,438	\$13,403	\$8,177	\$162,664
Accumulated depreciation	(48,734)	(30,669)	4,541	(74,862)
Net Fixed Assets	\$108,704	\$(13,333)	\$3,636	\$87,802

2. CONDUIT DEBT OBLIGATIONS

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

At June 30, 2006 and 2005, the bond issues and leases outstanding were as follows:

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Principal Balance at June 30, 2006</u>	<u>Principal Balance at June 30, 2005</u>
Brown University	1975	09/01/2005	\$ 0	\$ 160,000
Providence College	1989	11/01/2012	2,103,164	2,508,002
Board of Governors, series A & B	1993	09/15/2023	450,675	699,585
Westerly Hospital	1994	07/01/2019	11,770,000	12,305,000
Landmark Medical Center	1993	10/01/2019	0	15,210,000
United Methodist Center	1994	11/01/2014	0	845,000
Brown University	1995	09/01/2025	0	545,000
Johnson and Wales University	1996	04/01/2026	7,835,000	8,040,000

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Principal Balance at June 30, 2006</u>	<u>Principal Balance at June 30, 2005</u>
Roger Williams University	1996	11/15/2024	25,030,000	25,790,000
Tockwotton Home	1996	08/15/2022	4,365,000	4,510,000
Lifespan Obligated Group	1996	05/15/2026	60,990,000	189,365,000
Steere House	1997	07/01/2020	5,505,000	5,735,000
University of Rhode Island	1997	09/15/2023	1,720,000	1,780,000
Salve Regina University	1997	09/18/2007	282,844	458,425
Brown University	1998	09/01/2028	46,485,000	47,575,000
Bryant College	1998	06/11/2008	740,959	1,086,261
Roger Williams University	1998	11/15/2028	34,995,000	36,030,000
Mount St. Charles Academy	1998	12/01/2018	2,980,000	3,145,000
Roger Williams General Hospital	1998	07/01/2028	17,105,000	17,480,000
Bryant College	1998	12/30/2008	1,452,073	1,991,749
Newport Hospital	1999	07/01/2029	26,840,000	27,420,000
St. Andrew's School	1999	12/01/2029	8,015,000	8,210,000
St. Joseph's Hospital	1999	10/01/2029	20,770,000	21,180,000
Johnson & Wales University	1999	04/01/2029	42,330,000	43,035,000
Salve Regina University	1999	03/15/2029	11,110,000	11,365,000
St. Antoine Residence, Series A & B	1999	11/15/2029	19,815,000	20,560,000
Board of Governors, Series 1999 A & B	1999	09/15/2030	0	21,890,000
Roger Williams Realty Corporation	1999	08/01/2028	7,690,000	7,845,000
Kent County Memorial Hospital	2000	06/29/2007	561,666	1,091,335
Moses Brown School	2000	03/01/2030	9,275,000	9,525,000
Board of Governors, Series A & B	2000	09/15/2030	0	43,320,000
Roger Williams University	2000	11/15/2030	14,200,000	14,480,000
Roger Williams General Hospital	2000	10/13/2007	615,820	1,000,170
Bryant College	2001	12/01/2031	27,565,000	28,105,000
Providence College	2001	06/29/2006	0	739,687
South County Hospital	2001	12/14/2006	274,589	806,559
Roger Williams General Hospital	2001	12/17/2006	524,985	1,539,861
Ocean State Assisted Living	2001	07/01/2031	12,150,000	12,300,000
Portsmouth Abbey School	2001	10/01/2031	7,310,000	7,500,000
Rhode Island School of Design	2001	06/01/2031	27,795,000	27,845,000
Ballou Home	2001	12/01/2021	1,785,000	1,860,000
St. Mary Academy/Bay View	2001	12/01/2031	3,140,000	3,240,000
Brown University A & B	2001	09/01/2032	85,095,000	85,590,000
Care New England	2001	11/21/2007	1,816,671	3,035,909
Bryant College	2002	06/01/2019	12,605,000	13,305,000
Lifespan	2002	08/15/2032	9,490,000	75,900,000
Care New England, Series A & B	2002	09/01/2032	62,490,000	65,845,000
Salve Regina University, Series B	2002	03/15/2020	15,440,000	16,270,000
Board of Governors	2002	09/15/2022	7,660,000	7,975,000
Jewish Seniors Agency of Rhode Island	2002	12/01/2032	11,750,000	11,750,000
Paul Cuffee School	2002	08/01/2032	2,900,000	2,950,000
Salve Regina University, Series A	2002	03/15/2032	16,935,000	17,300,000

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RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

2. CONDUIT DEBT OBLIGATIONS (Continued)

<u>Entity</u>	<u>Year</u>	<u>Maturity Date</u>	<u>Principal Balance at June 30, 2006</u>	<u>Principal Balance at June 30, 2005</u>
Board of Governors, Series A	2003	09/15/2013	2,790,000	3,100,000
Board of Governors, Series B & C	2003	09/15/2020	32,395,000	33,280,000
Johnson & Wales University	2003	04/01/2020	41,105,000	43,580,000
South County Hospital, Series A,B,C	2003	09/15/2033	13,725,000	46,565,000
Memorial Hospital	2003	07/01/2019	21,880,000	23,440,000
Roger Williams University	2003	11/15/2033	31,070,000	31,540,000
St. George's School	2003	10/01/2033	16,345,000	17,275,000
Intl. Institute of RI	2003	08/01/2033	2,390,000	2,445,000
Lasalle School Academy	2003	07/01/2033	8,500,000	8,500,000
Brown University, Series A	2003	09/01/2043	46,200,000	46,200,000
Brown University, Series B	2003	09/01/2043	45,225,000	45,225,000
Providence College, Series A	2003	11/01/2024	61,965,000	63,755,000
Providence College, Series B	2003	11/01/2013	17,425,000	17,425,000
Thundermist Health Center	2004	02/01/2034	4,660,000	6,300,000
Newport Hospital	2004	03/01/2014	8,000,000	9,000,000
Pennfield School	2004	09/01/2034	4,975,000	5,000,000
Brown University	2004	09/01/2025	22,605,000	22,835,000
RI School of Design, Series A & B	2004	08/15/2034	55,325,000	55,500,000
Rhode Island School of Design, Series C	2004	08/15/2011	9,250,000	10,675,000
Rhode Island School of Design, Series D	2004	08/15/2031	58,435,000	58,435,000
New England Institute of Technology	2004	03/01/2034	17,350,000	17,525,000
The Groden Center, Series A	2004	10/01/2029	3,050,000	3,050,000
The Groden Center, Series B	2004	10/01/2029	1,350,000	1,350,000
Times ² , Inc.	2004	12/15/2024	18,625,000	18,625,000
Landmark Medical Center	2004	11/17/2009	3,638,651	4,309,001
Board of Governors, Series A	2004	09/15/2024	33,935,000	33,935,000
Board of Governors, Series B	2004	09/15/2034	33,000,000	33,000,000
Kent County/Butler Hospitals	2004	12/29/2010	5,224,054	6,283,327
Board of Governors, Series A	2005	09/15/2020	2,740,000	2,740,000
Catholic School Pool Program	2005	04/01/2035	23,045,000	23,100,000
Meeting Street School	2005	06/01/2035	16,000,000	17,000,000
Board of Governors, Series B	2005	9/15/2025	2,000,000	2,000,000
Landmark Medical Center	2005	10/01/2019	14,125,000	0
Paul Cuffee School	2005	10/01/2015	1,400,000	0
Brown University, Series A	2005	05/01/2035	85,500,000	0
Board of Governors, Series C-G	2005	09/15/2035	85,045,000	0
St. Joseph Hospital	2005	09/28/2012	7,472,361	0
Bryant University	2005	06/01/2035	30,000,000	0
Women & Infants Hospital	2005	12/16/2010	2,314,017	0
Roger Williams University	2005	11/29/2015	3,534,923	0
Lifespan Obligated Group, Series A	2005	05/15/2032	192,135,000	0
South County Hospital, Series A	2005	09/15/2035	52,000,000	0
Providence College	2006	11/01/2036	13,400,000	0
Public Schools Pool Program, Series A	2006	05/15/2023	18,285,000	0
Total			<u>\$ 1,861,192,452</u>	<u>\$ 1,703,029,871</u>

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

3. RETAINED EARNINGS DESIGNATIONS

The Board of Directors has designated the Corporation's unrestricted net assets as follows:

Operating Fund

Self Insurance

This designation was established to provide for the deductible exclusion for existing Corporation insurance policies. At June 30, 2006 and 2005, the Board designated net assets for self-insurance was \$1,000,000.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. At June 30, 2006 and 2005, the Board designated net assets for operating reserve was \$1,000,000.

Financial Assistance Program

The Board designated \$5,900,000 and \$9,650,000 of net assets for this program at June 30, 2006 and 2005, respectively.

4. CASH AND CASH INVESTMENTS

Cash

At June 30, 2006 and 2005, the Corporation had deposits of \$321,207 and \$339,153, respectively, of which \$254,835 and \$260,964, respectively was covered by federal deposit insurance which consisted of demand deposit accounts at various financial institutions. The Corporation's carrying amount of deposits at June 30, 2006 and 2005 was \$276,057 and \$303,233, respectively.

Under Rhode Island general laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. At June 30, 2006 and 2005, the Corporation's uninsured and uncollateralized deposits with an institution was \$66,372 and \$78,189, respectively, however, none of these deposits were required to be collateralized.

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

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

4. CASH AND CASH INVESTMENTS (Continued)

Investments

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

At June 30, 2006, the Corporation held the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury Bill	July 27, 2006	\$ 349,971
U.S. Treasury Bill	July 27, 2006	1,060,882
Federal Home Loan Mortgage Corp.	July 18, 2006	1,049,807
Federal Home Loan Bank	July 12, 2006	200,692
Federal Home Loan Mortgage Corp	July 11, 2006	<u>1,058,834</u>
Total		<u>\$ 3,720,186</u>

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

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

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

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

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

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

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

5. LOANS RECEIVABLE

In December 1997, the Corporation entered into a loan agreement for \$300,000 with Thundermist Health Associates under the Direct Loan Program. The loan agreement was amended in August 1998 increasing the principal amount by \$100,000. The amended agreement calls for monthly payments of \$3,384.96 plus interest at 6.38%. The outstanding principal balance at June 30, 2006 and 2005 is \$60,929 and \$101,548, respectively.

In April 1999, the Corporation entered into a loan agreement for \$117,000 with Wood River Health Services, Inc. under the Direct Loan Program. The agreement stipulates 120 payments of \$975 plus interest at 5.56%. The outstanding principal balance at June 30, 2006 and 2005 is \$33,149 and \$44,847, respectively.

In January 2001, the Corporation entered into a loan agreement with Health Center of South County for \$250,000. The agreement stipulates 84 payments at \$2,083.33 plus interest at 6.04%. The outstanding principal balance at June 30, 2006 and 2005 is \$116,667 and \$141,667, respectively.

In June 2001, the Corporation entered into a loan agreement with Neighborhood Health Plan of Rhode Island for \$400,000. The original agreement stipulated by payments at \$5,723 including interest at 5.35%. This agreement was amended in June 2004 to provide for an additional advance of funds by the Corporation. The revised agreement calls for 56 monthly payments of \$6,457, including interest at 2.87%. The outstanding principal balance at June 30, 2006 and 2005 is \$210,604 and \$280,944, respectively.

In July 2002, the Corporation entered into a loan agreement with VNS Home Health Services of South County for \$100,000. The agreement stipulates 60 payments at \$1,867 including interest at 4.55%. The outstanding principal balance at June 30, 2006 and 2005 is \$23,633 and \$44,441, respectively.

In February 2003, the Corporation entered into a loan agreement with VNA of Care New England for \$340,000. The agreement stipulates 84 payments at \$4,687 including interest at 4.25%. The outstanding principal balance at June 30, 2006 and 2005 is \$190,636 and \$237,683, respectively.

In August 2003, the Corporation entered into a loan agreement with Northwest Community Health Services for \$286,000. This agreement calls for 72 monthly payments of \$4,301, including interest at 2.65%. The outstanding principal balance at June 30, 2006 and 2005 is \$160,540 and \$207,222, respectively.

In February 2004, the Corporation entered into a loan agreement with Harmony Hill School for \$500,000. This agreement calls for 120 monthly payments of \$5,141, including interest at 4.33%. The outstanding balance at June 30, 2006 and 2005 is \$401,871 and \$445,141, respectively.

In July 2003, the Corporation entered into a loan agreement with Newport County Community Mental Health Center for \$495,000. This agreement calls for 120 monthly payments of \$4,851 including interest at 3.31%. The outstanding principal balance at June 30, 2006 and 2005 is \$367,108 and \$412,352, respectively.

In June 2004, the Corporation entered into a loan agreement with Kent County Visiting Nurse Association for \$300,000. This agreement calls for 120 monthly payments of \$3,141 including interest at 4.72%. The outstanding principal balance at June 30, 2006 and 2005 is \$252,889 and \$277,999, respectively.

In July 2004, the Corporation entered into a loan agreement with Northwest Community Health Care for \$400,000 at an interest rate of 3.98%. The agreement stipulates 60 monthly payments of interest only in the amount of \$1,326.67 until the principal is payable in full at maturity. The outstanding principal balance at June 30, 2006 and 2005 is \$400,000.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

5. LOANS RECEIVABLE (Continued)

In May 2005, the Corporation entered into a loan agreement with Neighborhood Health Plan of RI for \$138,057. The agreement stipulates 46 monthly payments of \$3,236.65, including interest at 3.91%. The outstanding principal balance at June 30, 2006 and 2005 is \$104,009 and \$138,057, respectively.

In August 2005, the Corporation entered into a loan agreement with La Salle Academy for \$750,000. This agreement stipulates 60 monthly payments of \$13,863.48, including interest at 4.06%. The outstanding principal balance at June 30, 2006 and 2005 is \$648,396 and \$0, respectively.

In October 2005, the Corporation entered into a loan agreement with the City of East Providence for \$525,000. This agreement stipulates semi-annual payments of principal and interest until maturity on October 27, 2012. The note bears interest at a rate of 4.583%. The outstanding principal balance at June 30, 2006 and 2005 is \$511,832 and \$0, respectively.

In November 2005, the Corporation entered into a loan agreement with the United Methodist Health Center for \$700,000. This agreement stipulates 120 monthly payments of \$4,879.22, including interest at 4.40%. The outstanding principal balance at June 30, 2006 and 2005 is \$683,633 and \$0, respectively.

In May 2006, the Corporation entered into a loan agreement with the Board of Governors for Higher Education for \$800,000. This agreement stipulates 120 monthly payments of \$8,387.82, including interest at 4.75%. The outstanding principal balance at June 30, 2006 and 2005 is \$794,779 and \$0, respectively.

6. LEASE COMMITMENT

The Corporation has entered into an operating lease for office space. Rental expense for the fiscal years ended June 30, 2006 and 2005 was \$101,074 and \$99,064, respectively. The lease expires in December, 2007. For the years ended June 30, 2007 and 2008, the annual base rent will be \$96,000 and 48,000, respectively.

7. SCHOOL HOUSING AID

In accordance with Title 16, Section 16-7-41 of Rhode Island General Laws, the Rhode Island Health and Educational Building Corporation, acting as a pass through entity for the school housing aid project, has received and distributed \$962,996 and \$0 in the fiscal years ending June 30, 2006 and 2005, respectively.

8. CONTRIBUTION TO THE STATE OF RHODE ISLAND

The State of Rhode Island, in conjunction with approval of the State annual budget for fiscal year 2006 and Title 45, Chapter 38.1 of Rhode Island General Laws, included a provision in the budget requiring the Corporation to contribute \$3,700,000 to the State's general fund.

9. PENSION PLAN

The Corporation sponsors and contributes to the Rhode Island Health and Educational Building Corporation 403(b) Retirement 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 Plan was established by the Corporation's Board of Directors, which maintains the authority to amend plan provisions, including employer contribution rates.

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

9. PENSION PLAN (Continued)

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

The Corporation's contributions to the Plan for the fiscal years ended June 30, 2006 and 2005 amounted to \$23,276 and \$22,474, respectively, equal to the required contributions for each year. Employee contributions to the Plan for the fiscal years ended June 30, 2006 and 2005 amounted to \$8,835 and \$7,845, respectively. No pension provision changes occurred during the year that affected the level of contributions to be made by the Corporation.

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

10. COMMITMENTS AND CONTINGENCIES

The Corporation has pledged to various institutions an Interest Rate Subsidy under its Financial Assistance Program. Upon approval by the Board of Directors, the Corporation will subsidize 1% of the interest charges of an eligible Institution's long-term debt. Upon granting the Interest Rate Subsidy, the Corporation deposits a lump sum of the estimated net present value required for the term of the Subsidy into a separate money market account in order to properly fund the award. As of June 30, 2002, the Board of Directors instituted a moratorium on future interest rate subsidies. As of June 30, 2006, the Interest Rate Subsidies awarded by the Board of Directors are the following:

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

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

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

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

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

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

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

(CONTINUED)

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

11. RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Corporation carries commercial insurance. In addition, the Corporation has designated a portion of its net assets for meeting co-insurance deductibles and potential claims in excess stated coverage levels. The Corporation is not currently aware of any such potential claims. Settled claims resulting from these risks have not exceeded the Corporation's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be \$-0- at June 30, 2006 and 2005.

12. SUBSEQUENT EVENTS

On July 1, 2006 the Corporation issued \$39,500,000 in Higher Education Facility Revenue Refunding Bond on behalf of the Rhode Island School of Design. The bonds bear interest at a variable rate and mature on August 15, 2036.

On July 1, 2006 the Corporation issued \$17,500,000 in Educational Facility Revenue Bonds on behalf of Ocean Tides, Inc; The Prout School; St. Joseph of Cluny Sisters' School; Saint Raphael's Academy; and Salve Regina University (the Catholic School Pool Program). The bonds bear interest at a variable rate and mature at April 1, 2036.

On August 30, 2006 the Corporation issued a \$3,520,000 Tax Exempt Lease on behalf of Kent County Memorial Hospital. The lease financing bears interest at 4.27% and matures on August 30, 2013.

In September 2006 the Corporation issued a \$3,520,000 Tax Exempt Lease on behalf of Kent County Memorial Hospital. The lease financing bears interest at 4.27% and matures on August 30, 2013.

In September 2006 the Corporation anticipates issuing \$60,000,000 Educational Institution Revenue Bonds on behalf of the City of Providence.

In September 2006 the Corporation anticipates issuing \$44,000,000 Higher Education Facility Revenue Bonds on behalf of Roger Williams University.

In October 2006 the Corporation anticipates issuing \$13,400,000 Health Facilities Revenue Bonds on behalf of Child & Family Services of Newport County.

In October 2006 the Corporation anticipates issuing \$9,000,000 Higher Education Facility Revenue Bonds on behalf of New England Institute of Technology.

In October 2006 the Corporation anticipates issuing \$50,000,000 Higher Education Facility Revenue Bonds on behalf of Brown University.

In November 2006 the Corporation anticipates issuing \$2,500,000 Health Facilities Revenue Bonds on behalf of Day One.

In December 2006 the Corporation anticipates issuing \$5,500,000 Health Facilities Revenue Bonds on behalf of Blackstone Valley Health Center.

In December 2006 the Corporation anticipates issuing \$2,000,000 Educational Facility Revenue Bonds on behalf of East Bay Collaborative.

(CONCLUDED)

SUPPLEMENTARY INFORMATION

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULES OF ADMINISTRATIVE EXPENSES - OPERATING FUND
YEARS ENDED JUNE 30, 2006 AND 2005**

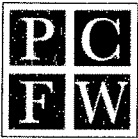
	<u>2006</u>	<u>2005</u>
Wages	\$ 233,896	\$ 223,764
Financial consulting	355,589	210,779
Contributions	668,919	327,152
Rent	101,074	99,084
Consultant	17,500	15,000
Travel, entertainment and education	9,317	7,827
Accounting and audit	19,500	19,200
Insurance	31,361	28,475
Legal fees	178,719	143,156
Employee benefits	31,390	29,865
Pension expense	23,276	22,474
Payroll taxes	17,394	16,642
Miscellaneous	20,986	6,514
Office supplies	5,038	6,709
Computer related expenses	12,231	6,173
Dues and subscriptions	3,872	3,809
Telephone and internet	6,425	5,926
Parking	8,433	7,660
Postage and delivery	2,155	3,120
Payroll service charge	1,017	994
Bank service charge	691	417
Maintenance	1,260	1,274
Advertising	4,745	-
Temporary services	9,983	1,565
Utilities	2,220	1,612
<i>Total administrative expenses</i>	<u>\$ 1,766,991</u>	<u>\$ 1,189,191</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

**SCHEDULE OF CASH EQUIVALENTS AND MARKETABLE SECURITIES
JUNE 30, 2006**

<u>Cash Equivalents</u>	<u>Value</u>
Sovereign Money Market	\$ 13,301
Bank of America Money Market	15,340
Citizens Bank Savings	15,235
Citizens Bank Savings	34,861
Coastway Credit Union Savings	2,565
Sovereign Checking	108,960
Bank of America Savings	36,930
Citizens Bank Checking	48,865
	<hr/>
Total	\$ 276,057

<u>Investments</u>	<u>Market Value</u>
U.S.Treasury Bill due July 27, 2006	\$ 349,971
U.S.Treasury Bill due July 27, 2006	1,060,882
Federal Home Loan Mortgage Corp due July 18, 2006	1,049,807
Federal Home Loan Banks due July 12, 2006	200,692
Federal Home Loan Mortgage Corp due July 11, 2006	1,058,834
	<hr/>
Total	\$ 3,720,186



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REPORT ON SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES

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

Pursuant to Section 35-7-14 of the General Laws of the State of Rhode Island, each public agency is required to prepare and maintain documentation for all travel, entertainment and education expenses. The Corporation complies with the "Travel Regulations", issued by the Rhode Island Department of Administration as revised March 1978 and updated February 1986. The Corporation's total travel, entertainment, and education expenses for the year ended June 30, 2006 was \$9,317. A detailed analysis of travel, entertainment and education expenses is attached, in compliance with guidelines issued by the Auditor General's office. The information contained above, concerning the Corporation's travel, entertainment and education expenses, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Prescott Chatellier Fontaine + Wilkinson LLP

September 22, 2006

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

SCHEDULE OF TRAVEL, ENTERTAINMENT AND EDUCATION EXPENSES
YEAR ENDED JUNE 30, 2006

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

Monterey, California - April 19-21, 2006

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
3/3/2006	NCHFFA/NAHEFA	Registration - RD, SO	\$ 600.00
3/8/2006	Scott O'Malley	Airfare	752.70
3/8/2006	Robert Donovan	Airfare	373.69
4/26/2006	Scott O'Malley	Meals, Lodging, Car Rental	867.29
5/11/2006	Robert Donovan	Meals, Lodging, Car Rental	1,459.90
Total			<u>\$ 4,053.58</u>

IRS Advisory Committee Meetings - Tax Exempt Bonds

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
8/9/2005	Robert Donovan	August 1 - 2, 2005	\$ 513.17
10/20/2005	Robert Donovan	October 17 - 18, 2005	249.31
1/19/2006	Robert Donovan	January 9 - 10, 2006	525.86
4/13/2006	Robert Donovan	April 3 - 4, 2006	380.34
6/8/2006	Robert Donovan	June 5 - 7, 2006	634.75
Total			<u>\$ 2,303.43</u>

National Council Health Facilities Finance Authority - Advocacy

Washington, D.C. - January 26, 2006

2/20/2006	Robert Donovan	Airfare, Parking	\$ 569.16
Total			<u>\$ 569.16</u>

Miscellaneous

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
12/14/2005	Robert Donovan	Annual Dinner	\$ 1,395.97
1/17/2006	Greater Prov Chamber	Legislative Lunch	120.00
2/24/2006	Greater Prov Chamber	Congressional Breakfast	70.00
4/3/2006	Greater Prov Chamber	Economic Outlook Lunch	120.00
	Prior Year Accrual (IRS 6/7 not reimbursed)		655.18
	Miscellaneous		30.00
Total			<u>\$ 2,391.15</u>
Total			<u><u>\$ 9,317.32</u></u>

(concluded)



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

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

We have audited the financial statements of the Rhode Island Health and Educational Building Corporation, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Prescott Chastellen Fountain & Williamson, LLP

September 22, 2006