

**RHODE ISLAND HEALTH AND
EDUCATIONAL BUILDING
CORPORATION**
**(a Component Unit of the State of Rhode Island and
Providence Plantations)**

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2016

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

(a Component Unit of the State of Rhode Island and Providence Plantations)

Financial Statements and Management's Discussion and Analysis

June 30, 2016

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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 (a component unit of the State of Rhode Island and Providence Plantations) (the "Corporation") which comprise the statement of net position for the year ended June 30, 2016, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2016, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Effective October 2015, in accordance with legislation passed by the State legislature, the Corporation assumed the custodial function for, and certain administrative duties of, the School Building Authority Capital Fund, as described further in Note 1. By virtue of the duties and responsibilities assumed, the Corporation meets the definition of a component unit and will be included as such in the financial statements of the State of Rhode Island and Providence Plantations in accordance with promulgations of the Government Accounting Standards Board (“GASB”).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4-10, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation’s basic financial statements. The combining statement of net position on page 35, combining statement of revenue, expenses and changes in net position on page 36 and the schedule of travel, entertainment and educational expenses on page 37, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining statement of net position, combining statement of revenue, expenses and changes in net position and schedule of travel, entertainment and educational expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, combining statement of revenue, expenses and changes in net position and the schedule of travel, entertainment and educational expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 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 30, 2016

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes, which are separately provided.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Statement 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.

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

Statement of Cash Flows – Presents cash flows from operating, capital financing, non-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 - Continued

June 30, 2016 and 2015

FINANCIAL HIGHLIGHTS – FY 2016

- During FY 2016 the Corporation received a \$20 million grant from the State for the School Building Authority Capital Fund (“SBACF”) program. The program provides local school districts access to capital for immediate health and safety improvements.
- During FY 2016 the Corporation completed 17 bond financings totaling \$300,030,000 as compared to 13 bond financings completed during FY 2015 totaling \$348,437,000.
- Total assets for FY 2016 are \$36,355,785, which is an increase of \$24,021,351 or 195% over total assets for FY 2015.
- Cash and investments for FY 2016 are \$32,659,560, which is an increase of \$21,901,066 or 204% over cash and investments for FY 2015.
- Operating revenues for FY 2016 are \$2,465,402, which is an increase of \$123,734 or 5% over operating revenues for FY 2015.
- Operating expenses for FY 2016 are \$3,644,763, which is an increase of \$2,081,814 or 133% over operating expenses for FY 2015.
- Change in net position for FY 2016 is \$20,054,713, which is an increase of \$19,239,023 or 2,359% over the change in net position for FY 2015.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

FINANCIAL ANALYSIS

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Capital assets, net	\$ 28,368	\$ 20,453
Other assets	<u>36,327,417</u>	<u>12,313,981</u>
Total assets	36,355,785	12,334,434
Other liabilities	<u>4,268,227</u>	<u>301,589</u>
Total liabilities	<u>4,268,227</u>	<u>301,589</u>
Net investment in capital assets	28,368	20,453
Restricted – School Building Authority Capital Fund	20,214,870	-
Unrestricted	<u>11,844,320</u>	<u>12,012,392</u>
Total net position	\$ <u>32,087,558</u>	\$ <u>12,032,845</u>

Capital Assets

The 39% increase in capital assets during FY 2016 is due to the replacement of the Corporation's telecommunications equipment.

Total Assets

Total assets increased \$24,021,351 or 195% due to the funding of the School Building Authority Capital Fund program. Initial sources of funding include a \$20 million appropriation from the State and \$2.2 million in interest savings from debt refinancing and other payments.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

Total Liabilities

Total liabilities increased \$3,966,638 or 1,315% during FY 2016 due to \$2,400,536 of loans and \$1,678,482 of grants due to borrowers through the School Building Authority Capital Fund program.

Total Net Position

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Revenues:		
Administrative fees	\$ 2,432,947	\$ 2,306,840
State appropriations	20,366,366	-
Other income	827,824	-
Interest income	<u>74,732</u>	<u>73,662</u>
Total revenues	<u>23,701,869</u>	<u>2,380,502</u>
Expenses:		
Personnel	626,587	599,622
Operating	357,133	311,419
Financing	678,223	653,771
Grants	<u>1,985,213</u>	<u>-</u>
Total expenses	<u>3,647,156</u>	<u>1,564,812</u>
Change in net position	20,054,713	815,690
Net position, beginning of year	<u>12,032,845</u>	<u>11,217,155</u>
Net position, end of year	<u>\$ 32,087,558</u>	<u>\$ 12,032,845</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

Revenues

Administrative fees are the annual fees the Corporation charges its borrowers based on the outstanding principal amount of conduit debt. Administrative fee revenue increased 5% for FY 2016 due to an increase in conduit debt of \$47.0 million or 2% when compared to FY 2015.

During FY 2016 the Corporation received \$22.2 million to fund the School Building Authority Capital Fund program including \$20.3 million from the State and \$1.9 million in other funds.

Interest income is composed of interest received from investments, direct loans, and restricted cash.

During FY 2016, the Corporation earned \$36,384 on investments, a 6% decrease when compared to FY 2015. During the current fiscal year the Corporation earned interest in the amount of \$5,893 on its restricted cash.

For the fiscal year ended June 30, 2016, the Corporation earned \$32,455 on direct loans, a decrease of 7% when compared to FY 2015. This decrease is the result of the Corporation refinancing a loan previously made to a borrower at a lower interest rate as well as a decrease of \$300,000 in the Corporation's total outstanding loan balances.

Expenses

Financing expenses are the expenses the Corporation incurs while providing financing. The Corporation issued \$300,030,000 of conduit debt during FY 2016 and incurred financing expenses totaling \$678,223, an increase of \$24,452 or 4% over FY 2015.

Personnel expenses, which include wages, benefits and taxes increased \$26,965 or 4% during FY 2016. This increase in personnel expenses is due to the increase in the costs of providing employee benefits.

Operating expenses increased \$45,714 or 15% during FY 2016. This increase in operating expenses is attributable to an increase in miscellaneous expenses of \$60,338 or 126% when compared to FY 2015 due to the engagement of a public relations advisory firm for the Corporation's 50th anniversary campaign and expenses related to arbitrage rebate compliance services.

During the current fiscal year the School Building Authority Capital Fund paid a total of \$1,985,213 in grants to various school districts.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

CONDUIT DEBT

	<u>2016</u>	<u>2015</u>
Bonds Payable	\$ <u>3,133,129,418</u>	\$ <u>3,086,160,835</u>

The Corporation issued \$300,030,000 of conduit debt during FY 2016. Of that amount, approximately \$187,635,000 was issued to finance new projects and \$112,395,000 was issued to refund prior bonds.

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 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, 55 Dorrance Street, Suite 300, Providence, RI 02903, or visit our website at www.rihebc.com.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statement of Net Position

June 30, 2016

Assets

Current Assets:

Cash and equivalents	\$ 1,033,297
Cash and equivalents - restricted	21,893,352
Investments	9,492,911
Current portion of loans receivable	217,689
Current portion of School Building Authority Capital Fund loan receivable	262,254
Accounts receivable	72,459
Prepaid expenses	42,560
Accrued interest receivable	3,382

Total Current Assets 33,017,904

Non-Current Assets:

Loans receivable, net of current portion	931,231
School Building Authority Capital Fund loans receivable	2,138,282
Investments	240,000
Capital assets, net	28,368

Total Non-Current Assets 3,337,881

Total Assets \$ 36,355,785

Liabilities and Net Position

Current Liabilities:

Accrued expenses	\$ 189,209
Project cost grants payable	1,678,482
Project cost loans payable	2,400,536

Total Liabilities 4,268,227

Net Position:

Net investment in capital assets	28,368
Restricted - School Building Authority Capital Fund:	
Loans receivable	2,400,536
Held for authorized projects	14,961,330
Available for future projects	2,853,004
Unrestricted	11,844,320

Total Net Position 32,087,558

Total Liabilities and Net Position \$ 36,355,785

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

Operating Revenues:	
Administrative fees	\$ 2,432,947
Interest earned on loans receivable	<u>32,455</u>
Total Operating Revenues	<u>2,465,402</u>
Operating Expenses:	
Administrative	1,652,684
Project cost grants	1,985,213
Depreciation	<u>6,866</u>
Total Operating Expenses	<u>3,644,763</u>
Operating Loss	(1,179,361)
Non-Operating Revenues (Expenses):	
Loss on disposal of capital assets	(2,393)
Net investment income	36,384
State appropriations	20,366,366
Other income	827,824
Interest earned on restricted cash	<u>5,893</u>
Total Non-Operating Revenues	<u>21,234,074</u>
Increase in Net Position	20,054,713
Net Position, at Beginning of Year	<u>12,032,845</u>
Net Position, at End of Year	<u>\$ 32,087,558</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash Flows from Operating Activities:	
Cash received from institutions for administrative fees	\$ 2,413,907
Payment of project cost grants	(306,731)
Payment to employees for services	(486,371)
Payment to suppliers for goods and services	<u>(1,270,411)</u>
Net Cash Provided by Operating Activities	<u>350,394</u>
Cash Flows from Non-Capital Financing Activities:	
State appropriation	20,366,366
Other income	<u>827,824</u>
Net Cash Provided by Non-Capital Financing Activities	<u>21,194,190</u>
Cash Flows from Capital and Related Financing Activity:	
Purchase of capital assets	<u>(17,174)</u>
Cash Flows from Investing Activities:	
Purchases of investment securities	(13,065,910)
Proceeds from sale and maturities of investment securities	13,253,825
Payments received on loans receivable	297,735
Interest earned on loans receivable	33,644
Net investment income	<u>42,277</u>
Net Cash Provided by Investing Activities	<u>561,571</u>
Net Increase in Cash and Equivalents	22,088,981
Cash and Equivalents, Beginning of Year	<u>837,668</u>
Cash and Equivalents, End of Year	<u>\$ 22,926,649</u>
Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities:	
Net operating loss	\$ (1,179,361)
Adjustments to reconcile net operating loss to net cash operating activities:	
Depreciation	6,866
Interest on loans receivable	(33,644)
Changes in assets and liabilities:	
Accounts receivable	(19,040)
Prepaid expenses	8,282
Accrued interest receivable	1,189
Accrued expenses	(112,380)
Project cost grants and loans payable	<u>1,678,482</u>
Net Cash Provided by Operating Activities	<u>\$ 350,394</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, 2016

Note 1 - Summary of Significant Accounting Policies

Organization

Rhode Island Health and Educational Building Corporation (the "Corporation") ("RIHEBC") is a component unit 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.

Prior to fiscal year 2016, 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 and was designated as a related organization. With the addition of the State Building Authority Capital Fund the Corporation's status has changed from a related organization of the State to a component unit. The Corporation's results of operation and financial position are now incorporated in the State's Annual Financial Report.

School Building Authority Capital Fund

The State fiscal year 2016 budget legislation established a School Building Authority Fund ("SBACF") to address high priority projects in communities with limited financial resources. The legislation assigned certain administrative duties related to the management and custody of monetary assets of SBACF to the Corporation, including establishing a trust to hold related monies, creating and maintaining SBACF's accounting records and the distribution and management of SBACF's award program. In accordance with the legislation, the Corporation received an appropriation of approximately \$20 million.

Awards are made for the purpose of repairing public school facilities to cities, towns and local education agencies ("LEAs") by the Rhode Island Department of Education and approved by the Corporation. Approved awards can be loans, grants or a combination of both. Funding of SBACF is expected to continue through annual appropriations from the legislature, loan repayments, bond refinance interest savings and other payments received by the Corporation pursuant to finance agreements with cities, towns and LEAs.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

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 and grant 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 state appropriations along with gains or losses relating to investments or disposals of capital assets.

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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

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.

Cash and Equivalents - Restricted

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

Investments

Investments are stated at fair value. 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 year ended June 30, 2016.

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, 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Project Cost Grants and Loans Payable

Project cost grants and loans payable represent the liability for amounts granted or loaned but have not been requisitioned by their intended recipients for their projects as of year-end. Requisitioned project costs must meet certain requirements for grant award approval. Project costs grant expense is recognized upon the approval of the recipient's requisition.

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, 2016. Upon retirement or termination, employees are compensated for all accumulated unused vacation leave. At June 30, 2016, compensated absences totaled approximately \$50,000.

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.

Restricted: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Corporation or by the passage of time.

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

Tax Status

The Corporation is a component unit 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, 2016

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

GASB 72, *Fair Value Measurement and Application*, 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. Implementation of this standard had no effect on financial position.

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 the faith and credit of the Corporation or the State of Rhode Island, and accordingly have not been reflected in the accompanying financial statements.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 2 - **Conduit Debt - Continued**

At June 30, 2016, the bond issues and leases outstanding are as follows:

<u>Institution</u>	<u>Year Issued</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2016</u>
Lifespan Obligated Group	1996	05/15/2026	\$ 49,450,000
Johnson & Wales University	1999	04/01/2029	8,770,000
Moses Brown School	2000	03/01/2030	-
Paul Cuffee School	2002	08/01/2032	-
International Institute of RI, Inc.	2003	08/01/2033	1,720,000
Brown University, Series B	2003	09/01/2043	41,650,000
The Groden Center, Series A & B	2004	10/01/2029	3,050,000
Board of Governors, Series A	2005	09/15/2020	1,085,000
Catholic School Pool Program	2005	04/01/2035	3,735,000
Meeting Street School	2005	06/01/2035	7,465,000
Board of Governors, Series B	2005	09/15/2025	1,180,000
Paul Cuffee School	2005	10/01/2015	-
Brown University, Series A	2005	05/01/2035	85,500,000
Board of Governors, Series C - G	2005	09/15/2035	63,630,000
Roger Williams University	2005	11/29/2015	-
Lifespan Obligated Group, Series A	2006	05/15/2032	129,185,000
South County Hospital, Series A	2006	09/15/2035	-
Public Schools Revenue Bonds, Series A	2006	05/15/2023	1,940,000
Catholic School Pool Program	2006	04/01/2036	1,970,000
Public Schools Revenue Bonds, Series A	2007	05/15/2027	23,770,000
NRI Community Services, Inc.	2007	06/01/2037	2,710,000
Brown University	2007	09/01/2037	88,295,000
Public Schools Revenue Bonds, Series B	2007	05/15/2027	1,820,000
CVS-Highlander Charter School	2007	09/01/2037	3,520,000
Public Schools Revenue Bonds, Series C	2007	05/15/2021	6,255,000
Providence Public Building Authority, Series B	2007	05/15/2028	6,760,000
St. Antoine Residence, Series A	2007	11/01/2029	6,715,000
Public Schools Revenue Bonds, Series D	2007	11/15/2027	3,335,000
Home & Hospice Care of RI	2008	02/01/2038	8,814,500

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Year Issued</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2016</u>
The Learning Community Charter School	2008	02/01/2038	\$ 3,398,000
Rhode Island School of Design, Series A & B	2008	08/15/2036	80,590,000
Bryant University	2008	06/01/2035	47,600,000
Public Schools Revenue Bonds, Series A	2008	05/15/2029	66,690,000
Roger Williams University, Series A	2008	11/15/2024	13,840,000
New England Institute of Technology	2008	03/01/2034	11,175,000
Public Schools Revenue Bonds, Series B	2008	05/15/2029	16,950,000
Roger Williams University, Series B	2008	11/15/2038	34,030,000
Board of Governors, Series A & B	2008	09/15/2034	37,935,000
Public Schools Revenue Bonds, Series A	2009	05/15/2024	3,420,000
Lifespan Obligated Group	2009	05/15/2039	114,985,000
Public Schools Revenue Bonds, Series B	2009	05/15/2021	380,000
Public Schools Revenue Bonds, Series C	2009	05/15/2029	18,370,000
Board of Governors, Series A & B	2009	09/15/2029	24,545,000
Public Schools Revenue Bonds, Series D	2009	05/15/2029	12,360,000
Brown University, Series A	2009	09/01/2039	70,795,000
Public Schools Revenue Bonds, Series E	2009	05/15/2034	63,695,000
St. Antoine Residence, Series A	2009	11/01/2018	3,370,000
Providence Public Building Authority, Series A	2009	06/15/2025	13,440,000
Board of Governors, Series A	2010	09/15/2040	21,585,000
New England Institute of Technology, Series A	2010	03/01/2040	36,100,000
Board of Governors, Series B	2010	09/15/2040	39,790,000
Public Schools Revenue Bonds, Series A	2010	05/15/2027	12,575,000
Public Schools Revenue Bonds, Series B	2010	05/05/2020	1,880,000
Thundermist Health Center, Series A	2010	08/01/2020	2,928,958
Public Schools Revenue Bonds, Series C	2010	05/15/2026	2,905,000
Public Schools Revenue Bonds, Series D	2010	05/15/2025	2,810,000
Public Schools Revenue Bonds, Series E	2010	05/15/2025	5,534,000
Public Schools Revenue Bonds, Series F & G	2010	05/15/2029	24,100,000
Providence Public Building Authority, Series A & B	2010	05/15/2029	21,945,000
J. Arthur Trudeau Memorial Center	2010	12/01/2040	2,260,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 2 - **Conduit Debt - Continued**

<u>Institution</u>	<u>Year Issued</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2016</u>
The Providence Community Health Centers, Inc.	2010	06/01/2037	\$ 10,484,701
Care New England	2010	12/31/2030	9,511,649
Public Schools Revenue Bonds, Series A	2011	05/15/2031	5,075,000
Tockwotton Home	2011	01/01/2046	40,300,000
Roger Williams University	2011	11/15/2024	18,715,000
Public Schools Revenue Bonds, Series B	2011	05/15/2031	8,920,000
Public Schools Revenue Bonds, Series C	2011	05/15/2031	11,550,000
Compass School, Series A, B & C	2011	06/28/2027	1,475,000
Brown University	2011	09/01/2032	55,060,000
Blackstone Valley Community Health Care, Inc.	2011	01/01/2022	5,815,016
Care New England	2011	08/01/2031	-
Steere House	2011	09/01/2036	4,802,000
Portsmouth Abbey School	2011	10/01/2031	5,000,000
Ocean State Assisted Living	2011	11/01/2031	9,680,000
Bryant University	2011	12/01/2031	19,965,000
Roger Williams University, Series B	2011	12/15/2029	9,690,000
Tamarisk, Inc.	2011	12/01/2032	-
Salve Regina University	2011	06/15/2031	23,375,000
Providence College	2012	11/01/2041	35,945,000
Public Schools Revenue Bonds, Series A	2012	05/15/2037	32,250,000
Rhode Island School of Design	2012	06/01/2031	25,640,000
Immaculate Conception Catholic Regional School	2012	03/16/2032	5,118,750
Rocky Hill School	2012	04/26/2022	2,837,783
Seven Hills Rhode Island, Inc.	2012	05/31/2042	3,353,000
Brown University	2012	09/01/2022	118,240,000
Rhode Island Blood Center	2012	09/29/2028	8,163,008
Rhode Island School of Design, Series B	2012	08/15/2035	47,280,000
Care New England	2012	09/28/2019	5,128,995
Public Schools Revenue Bonds, Series B	2012	05/15/2032	13,150,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 2 - **Conduit Debt - Continued**

<u>Institution</u>	<u>Year Issued</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2016</u>
South County Hospital, Series A & B	2012	09/15/2033	\$ -
The Kent Center, Inc	2012	10/12/2022	4,371,096
Brown University, Series A & B	2012	09/30/2042	-
Providence College, series B & C	2012	11/01/2024	35,140,000
Bryant University	2013	06/30/2019	3,465,000
Scandanavian Home	2013	04/01/2040	3,952,219
Public Schools Revenue Bonds, Series A	2013	05/15/2033	6,495,000
Public Schools Revenue Bonds, Series B	2013	05/15/2033	10,355,000
Board of Education, Series A, B, C & D	2013	09/15/2024	39,505,000
Public Schools Revenue Bonds, Series C & D	2013	05/15/2033	28,045,000
Lifespan Obligated Group	2013	06/14/2020	29,277,776
Seven Hills Rhode Island, Inc.	2013	06/21/2043	1,489,499
Saint Elizabeth Manor, East Bay	2013	07/31/2043	7,824,768
Public Schools Revenue Bonds, Series E	2013	05/15/2028	805,000
La Salle Academy	2013	09/16/2023	3,621,785
The Wheeler School, Series B	2013	09/18/2028	3,393,739
The Providence Center, Inc.	2013	02/01/2041	2,561,962
Providence Public Building Authority, Series A	2013	05/15/2024	47,210,000
Roger Williams University, Series A	2013	11/15/2028	18,708,428
Public Schools Revenue Bonds, Series H	2013	05/15/2034	10,665,000
Care New England, Series A	2013	09/01/2033	81,100,000
St. Andrew's School	2013	06/01/2043	15,935,000
Brown University	2013	09/01/2043	135,310,000
Public Schools Revenue Bonds, Series I	2013	11/15/2023	8,020,000
Public Schools Revenue Bonds, Series I	2013	11/15/2021	1,550,000
Public Schools Revenue Bonds, Series J	2013	05/15/2020	3,610,000
Care New England, Series A	2014	10/01/2042	42,810,000
Bryant University	2014	06/01/2044	45,540,000

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 2 - Conduit Debt - Continued

<u>Institution</u>	<u>Year Issued</u>	<u>Maturity Date</u>	<u>Outstanding Principal at 06/30/2016</u>
Public Schools Revenue Bonds, Series A	2014	05/15/2034	\$ 8,290,000
Portsmouth Abbey School	2014	07/01/2024	1,916,250
Public Schools Revenue Bonds, Series B	2014	05/15/2034	3,090,000
St. George's School, Series A, B & C	2014	09/01/2044	44,251,077
Times ² Academy, Inc.	2014	10/01/2026	8,948,692
Public Schools Revenue Bonds, Series C	2014	05/15/2034	7,480,000
Roger Williams University	2014	10/15/2035	14,865,211
The Pennfield School, Series A & B	2014	11/01/2039	4,109,399
Newport Hospital	2014	07/01/2029	19,098,000
Public Schools Revenue Bonds, Series A	2015	11/15/2020	5,490,000
Providence Public Building Authority, Series A	2015	05/15/2028	146,325,000
Child and Family Services of Newport County	2015	04/30/2043	9,256,190
Salve Regina University, Series A, B & C	2015	05/01/2045	23,115,059
Mercymount Country Day School	2015	05/01/2035	3,411,143
Providence College	2015	11/01/2045	45,690,000
South County Hospital Healthcare System	2015	09/15/2033	43,620,000
Public Schools Revenue Bonds, Series B	2015	05/15/2036	4,565,000
New England Institute of Technology	2015	09/01/2045	60,000,000
Saint Philomena School	2015	04/01/2035	1,831,170
Johnson & Wales University	2015	10/01/2030	28,610,614
Tamarisk, Inc.	2015	10/01/2040	9,194,798
Brown University	2015	09/01/2045	45,000,000
Bishop Hendricken High School, Series A & B	2015	04/01/2035	5,108,266
The Prout School	2015	04/01/2036	4,964,250
Saint Raphael Academy	2015	04/01/2036	4,736,667
Providence Public Building Authority, Series B	2015	05/15/2035	10,000,000
Public Schools Revenue Bonds, Series C, D & E	2015	05/15/2036	23,515,000
Saint Elizabeth Home, East Greenwich	2015	12/01/2045	13,900,000
Moses Brown School, Series A, B & C	2016	06/01/2046	27,000,000
Care New England, Series A	2016	06/27/2017	<u>14,156,000</u>
			<u>\$ 3,133,129,418</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 3 - Cash and Equivalents

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

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

At June 30, 2016, the carrying amounts of the Corporation's cash deposits were \$2,935,014, and bank balances were \$2,935,209. Included in these cash deposits are certificates of deposit totaling \$1,901,717, which are reported as investments (Note 4). Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

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

Of the bank balances, approximately \$364,000 was covered by federal depository insurance, and approximately \$1,902,000 was collateralized with securities held by the pledging financial institution in the Corporation's name as of June 30, 2016. The remaining amount of approximately \$669,000 was uninsured and uncollateralized at June 30, 2016. The insured balances reflect guarantees from the FDIC in effect during June 30, 2016.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 4 - **Investments**

At June 30, 2016, the Corporation held the following investments:

		Fair Value Hierarchy
Maturities within fiscal year ending 2017:		
U.S. Treasury Bills	\$ 1,749,405	Level 1
Federal Home Loan Bank Consolidated Discount Notes	3,496,728	Level 1
Ocean State Investment Pool Trust	2,260,061	NAV
City of Central Falls General Obligation Bonds	85,000	Level 2
Certificates of Deposit	<u>1,901,717</u>	Level 1
Total Current Portion	<u>\$ 9,492,911</u>	
Maturities after fiscal year-end 2017:		
City of Central Falls General Obligation Bonds	\$ <u>240,000</u>	Level 2

At June 30, 2016, the Corporation had investments consisting of \$2,260,061 in the Ocean State Investment Pool Trust (“OSIP”), an investment pool established by the State General Treasurer. The Corporation’s investment accounted for 0.42% of the total investment in OSIP at June 30, 2016. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to reports its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (“NAV”) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue – 2nd Floor, Warwick, RI 02886.

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.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 4 - Investments - Continued

Credit Risk

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

The City of Central Falls (“City”) General Obligation Bond was rated as Ba2 for the year ended December 31, 2015. The City filed a Chapter 9 bankruptcy petition during fiscal year 2012. The State of Rhode Island has passed legislation to give priority to bond payments and has the ability to intercept aid to mitigate potential bondholder losses. Due to these factors, management has determined that an allowance for uncollectable general obligation bonds is not necessary at this time.

Concentration of Credit Risk

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

Fair Value Hierarchy

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 4 - **Investments - Continued**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

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

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

General Obligation Bonds: Valued at the principal balance outstanding

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Board believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - Loans Receivable

Loans receivable as of the year ended June 30, 2016 are as follows:

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.	\$ 151,225
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.	757,147
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.	-
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.	66,620

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - 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>173,928</u>
Total Loans Receivable	1,148,920
Less: Current Portion	<u>217,689</u>
Long-Term Loans Receivable	\$ <u><u>931,231</u></u>

Note 6 - School Building Authority Capital Fund Loans Receivable

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

At June 30, 2016, the Corporation had loans receivable of \$2,400,536 with a current portion of \$262,254. The term of the notes range from 5 to 10 years maturing in June 2026, with annual principal payments ranging from \$35,200 to \$183,054, plus interest ranging from 1.78% to 1.92%.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital Assets:						
Office Equipment	5	\$ 15,548	\$ 14,854	\$ (12,156)	\$ -	\$ 18,246
Computer Equipment	5	45,414	2,320	(12,730)	-	35,004
Furniture and Fixtures	5	<u>131,318</u>	-	<u>(10,623)</u>	-	<u>120,695</u>
Total Capital Assets		<u>192,280</u>	<u>17,174</u>	<u>(35,509)</u>	-	<u>173,945</u>
Less: Accumulated Depreciation:						
Office Equipment		12,220	2,164	(11,203)	-	3,181
Computer Equipment		30,247	4,357	(12,730)	-	21,874
Furniture and Fixtures		<u>129,360</u>	<u>345</u>	<u>(9,183)</u>	-	<u>120,522</u>
Total Accumulated Depreciation		<u>171,827</u>	<u>6,866</u>	<u>(33,116)</u>	-	<u>145,577</u>
Capital Assets, Net		\$ <u>20,453</u>	\$ <u>10,308</u>	\$ <u>(2,393)</u>	\$ -	\$ <u>28,368</u>

Note 8 - Commitments and Contingencies

Subsidy Program

Under an Interest Rate Subsidy (the "Subsidy") Program, discontinued in 2002, the Corporation pledged to subsidize 1% of the interest charges of certain institutions' long-term debt. To fund this commitment, the Corporation deposited the estimated net present value of the Subsidy into a separate bank account. As of June 30, 2016, remaining commitments on existing Subsidies expiring through 2023 aggregate \$95,200.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 8 - Commitments and Contingencies - Continued

Lease Commitment

During April 2016, the Corporation entered into a five-year operating lease agreement for office space expiring March 31, 2021. Rental expense for the fiscal year ended June 30, 2016 was \$95,654. Future minimum lease payments are as follows:

Years Ending <u>June 30,</u>	
2017	\$ 90,877
2018	93,603
2019	96,411
2020	99,302
2021	<u>76,137</u>
	\$ <u>456,330</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 8 - **Commitments and Contingencies - Continued**

Grant and Loan Commitments

At June 30, 2016, School Building Authority Capital Fund has approximately \$2.9 million of uncommitted funds available for future awards under its program.

Grants and loans awarded and remaining balances available for draw as of June 2016, are as follows:

	<u>Total Awarded</u>	<u>Issued Loans</u>	<u>Grants</u>	<u>Unspent</u>
Barrington	\$ 22,750	-	-	\$ 22,750
Beacon Charter	67,500	-	-	67,500
Briston Warren	1,335,559	-	-	1,335,559
Burrville	562,366	-	-	562,366
Cental Falls	469,468	-	-	469,468
Cranston	263,160	-	-	263,160
East Providence	268,770	-	207,250	61,520
Foster	104,786	-	9,481	95,305
Foster Gloucester	371,690	-	9,587	362,103
Kingston Hill Academy	24,375	-	5,663	18,712
Middletown	73,500	-	-	73,500
New Shoreham	20,300	-	-	20,300
North Providence	500,000	218,000	-	282,000
Pawtucket	4,212,440	352,000	1,340,385	2,520,055
Portsmouth	373,434	-	-	373,434
Providence	9,894,789	1,830,536	390,372	7,673,881
Tiverton	161,000	-	-	161,000
Woonsocket	621,192	-	22,475	598,717
	<u>\$ 19,347,079</u>	<u>\$ 2,400,536</u>	<u>\$ 1,985,213</u>	<u>\$ 14,961,330</u>

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 9 - Net Position Designations

The Board of Directors of the Corporation (the "Board") has designated certain unrestricted net position of the Corporation for the year ended June 30, 2016 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, 2016.

Operating Reserves

This designation was established to provide for expenditures incurred as a result of operating contingencies. The Board designated \$2,250,000 of net position for operating reserves at June 30, 2016.

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 \$6,500,000 of net position for the financial assistance program at June 30, 2016.

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, 2016.

Note 10 - Other Income

Other income consists of housing aid adjustments resulting from a bond refinancing. Pursuant to Rhode Island General Law 45-38.2-2, loan repayments, bond refinance interest savings and other payments received by the Corporation shall be deposited into the School Building Authority Capital Fund.

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Notes to the Financial Statements - Continued

June 30, 2016

Note 11 - **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 \$45,406 for the fiscal year ended June 30, 2016.

Note 12 - **Management's Acceptance of the Financial Statements**

Management has evaluated subsequent events through September 30, 2016, 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, 2016 requiring disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Combining Statement of Net Position

June 30, 2016

Assets

	<u>RIHEBC</u>	<u>SBACF</u>	<u>Total</u>
Current Assets:			
Cash and equivalents	\$ 1,033,297	\$ -	\$ 1,033,297
Cash and equivalents - restricted	-	21,893,352	21,893,352
Investments	9,492,911	-	9,492,911
Current portion of loans receivable	217,689	-	217,689
Current portion of School Building Authority Capital Fund loan receivable	-	262,254	262,254
Accounts receivable	72,459	-	72,459
Prepaid expenses	42,560	-	42,560
Accrued interest receivable	<u>3,382</u>	<u>-</u>	<u>3,382</u>
Total Current Assets	<u>10,862,298</u>	<u>22,155,606</u>	<u>33,017,904</u>
Non-Current Assets:			
Loans receivable, net of current portion	931,231	-	931,231
School Building Authority Capital Fund loans receivable	-	2,138,282	2,138,282
Investments	240,000	-	240,000
Capital assets, net	<u>28,368</u>	<u>-</u>	<u>28,368</u>
Total Non-Current Assets	<u>1,199,599</u>	<u>2,138,282</u>	<u>3,337,881</u>
Total Assets	<u>\$ 12,061,897</u>	<u>\$ 24,293,888</u>	<u>\$ 36,355,785</u>

Liabilities and Net Position

Current Liabilities:			
Accrued expenses	\$ 189,209	\$ -	\$ 189,209
Project cost grants payable	-	1,678,482	1,678,482
Project cost loans payable	<u>-</u>	<u>2,400,536</u>	<u>2,400,536</u>
Total Liabilities	<u>189,209</u>	<u>4,079,018</u>	<u>4,268,227</u>
Net Position:			
Net investment in capital assets	28,368	-	28,368
Restricted - School Building Authority Capital Fund:			
Loans receivable	-	2,400,536	2,400,536
Held for authorized projects	-	14,961,330	14,961,330
Available for future projects	-	2,853,004	2,853,004
Unrestricted	<u>11,844,320</u>	<u>-</u>	<u>11,844,320</u>
Total Net Position	<u>11,872,688</u>	<u>20,214,870</u>	<u>32,087,558</u>
Total Liabilities and Net Position	<u>\$ 12,061,897</u>	<u>\$ 24,293,888</u>	<u>\$ 36,355,785</u>

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

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION

Combining Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

	<u>RIHEBC</u>	<u>SBACF</u>	<u>Total</u>
Operating Revenues:			
Administrative fees	\$ 2,432,947	\$ -	\$ 2,432,947
Interest earned on loans receivable	<u>32,455</u>	<u>-</u>	<u>32,455</u>
Total Operating Revenues	<u>2,465,402</u>	<u>-</u>	<u>2,465,402</u>
Operating Expenses:			
Administrative	1,652,684	-	1,652,684
Grant	-	1,985,213	1,985,213
Depreciation	<u>6,866</u>	<u>-</u>	<u>6,866</u>
Total Operating Expenses	<u>1,659,550</u>	<u>1,985,213</u>	<u>3,644,763</u>
Operating Income (Loss)	805,852	(1,985,213)	(1,179,361)
Non-Operating Revenue (Expenses):			
Loss on disposal of capital assets	(2,393)	-	(2,393)
Net investment income	36,384	-	36,384
State appropriations	-	20,366,366	20,366,366
Other Income	-	827,824	827,824
Interest earned on restricted cash	<u>-</u>	<u>5,893</u>	<u>5,893</u>
Total Non-Operating Revenues (Expenses)	<u>33,991</u>	<u>21,200,083</u>	<u>21,234,074</u>
Income (Loss) before Transfers	839,843	19,214,870	20,054,713
Transfers In (Out)	<u>(1,000,000)</u>	<u>1,000,000</u>	<u>-</u>
Increase (Decrease) in Net Position	(160,157)	20,214,870	20,054,713
Net Position, at Beginning of Year	<u>12,032,845</u>	<u>-</u>	<u>12,032,845</u>
Net Position, at End of Year	<u>\$ 11,872,688</u>	<u>\$ 20,214,870</u>	<u>\$ 32,087,558</u>

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

**RHODE ISLAND HEALTH AND EDUCATIONAL
BUILDING CORPORATION**
(a component unit of the State of Rhode Island)

Schedule of Travel, Entertainment and Educational Expenses

For the Year Ended June 30, 2016

<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
10/27/2015	Robert Donovan	Registration fee	\$ <u>95.00</u>
		TOTAL	\$ <u>95.00</u>

The Bond Buyer's Healthcare and Higher Education Finance Conference – Providence, Rhode Island, October 27, 2015

**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, 2016, 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 30, 2016.

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 30, 2016