

**RHODE ISLAND CLEAN WATER
FINANCE AGENCY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED
JUNE 30, 2007 AND 2006**

RHODE ISLAND CLEAN WATER FINANCE AGENCY

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CAYER CACCIA LLP

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board Members
Rhode Island Clean Water Finance Agency
Providence, Rhode Island

We have audited the accompanying financial statements of the RHODE ISLAND CLEAN WATER FINANCE AGENCY, a component unit of the State of Rhode Island and Providence Plantations (State), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions 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 the 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 CLEAN WATER FINANCE AGENCY as of June 30, 2007 and 2006, and the changes in financial position and 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 our report dated September 18, 2007, on our consideration of the RHODE ISLAND CLEAN WATER FINANCE AGENCY'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 the internal control 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 - 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 18, 2007

Cayn Caccia, LLP.

**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

The Rhode Island Clean Water Finance Agency (the "Agency") has the pleasure to offer readers of these financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. The Agency encourages readers to consider the information presented here in conjunction with the financial statements as a whole.

FINANCIAL HIGHLIGHTS:

- The Agency's total assets at June 30, 2007 were \$938,950,615, which is an increase of \$63,989,961 or 7% over June 30, 2006.
- The Agency's total operating revenues for the fiscal year ended June 30, 2007 was \$31,522,631, which is an increase of \$2,083,527 or 7% over the fiscal year ended June 30, 2006.
- The Agency's operating expenses for the fiscal year ended June 30, 2007 were \$28,149,957, which is an increase of \$1,206,954 or 4% over the fiscal year ended June 30, 2006.
- The Agency's total net assets for the fiscal year ended June 30, 2007 was \$336,576,358, which is an increase of \$18,387,184 or 6% over the fiscal year ended June 30, 2006.

2007 FISCAL SUMMARY:

In other activity, the Agency has assumed \$62,930,000 in new bond indebtedness; however the Agency has created additional assets by issuing new loans to Rhode Island borrowers totaling \$77,263,000.

- December 21, 2006, the Agency issued a \$57,795,000 Series 2006A Bond Issue. This bond issue was part of a total loan pool of \$64,663,000 made to nine borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Barrington	\$ 3,908,000
Bristol	3,700,000
Burrillville	3,500,000
Coventry	3,205,000
East Greenwich	7,600,000
Middletown	2,750,000
NBC Pool #10	30,000,000
Warwick	9,500,000
West Warwick	500,000
	<u>\$64,663,000</u>

**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

2007 FISCAL SUMMARY (Continued):

- March 7, 2007, the Agency issued a \$5,135,000 Series 2007A Bond Issue. This bond issue was part of a total loan pool of \$12,600,000 made to four borrowers in the Drinking Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Jamestown	\$ 6,200,000
Lincoln Water Comm.	1,800,000
Newport	3,000,000
Portsmouth WFD	<u>1,600,000</u>
	<u>\$12,600,000</u>

- October 31, 2006, the Agency issued a CSSLP loan to the Town of Charlestown in the amount of \$300,000.
- December 27, 2006, the Agency issued a CSSLP loan to the Town of South Kingstown in the amount of \$300,000.
- December 27, 2006, the Agency issued a CSSLP loan to the Town of Tiverton in the amount of \$300,000.
- February 8, 2007, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

Statement of Net Assets – This statement presents information regarding the Agency's assets, liabilities and net assets. Net assets represent the total amount of assets less the total liabilities. The statement of net assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Revenues, Expenses and Changes in Net Assets – This statement presents the Agency's operating revenues, operating expenses and changes in net assets for the fiscal year.

Statement of Cash Flow – The Agency's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

FINANCIAL ANALYSIS:

NET ASSETS

The Agency's total net assets at June 30, 2007 was \$336,576,358, which is an increase of \$18,387,184 or 6% over June 30, 2006. Components of the Agency's statement of net assets were as follows at June 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current and other assets	\$938,915,921	\$874,917,693	\$827,849,299
Capital assets	<u>34,694</u>	<u>42,961</u>	<u>50,356</u>
Total assets	<u>938,950,615</u>	<u>874,960,654</u>	<u>827,899,655</u>
Liabilities:			
Current liabilities	33,153,772	28,672,165	28,144,002
Non-current liabilities	<u>569,220,485</u>	<u>528,099,315</u>	<u>507,993,235</u>
Total liabilities	<u>602,374,257</u>	<u>556,771,480</u>	<u>536,137,237</u>
Net assets			
Invested in capital assets	34,694	42,961	50,356
Restricted for debt service	318,427,286	303,586,028	279,998,423
Unrestricted	<u>18,114,378</u>	<u>14,560,185</u>	<u>11,713,639</u>
Total net assets	<u>\$336,576,358</u>	<u>\$318,189,174</u>	<u>\$291,762,418</u>

The increases noted above in the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2007 increase results from the Agency closing a \$57.79 million Clean Water bond issue in December and a \$5.13 million Drinking Water bond issue in March. Total assets grew from \$874,960,654 at June 30, 2006 to \$938,950,615 at June 30, 2007. Current liabilities grew from \$28,672,165 at June 30, 2006 to \$33,153,772 or 16% at June 30, 2007. The growth over the past year also relates to non-current liabilities totaling \$569,220,485 which is an increase of \$41,121,170 or 8% over June 30, 2006. The increases noted in unrestricted assets, restricted assets, and non-current liabilities are related to the increase level of loan activity through the issuance of bonds.

**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

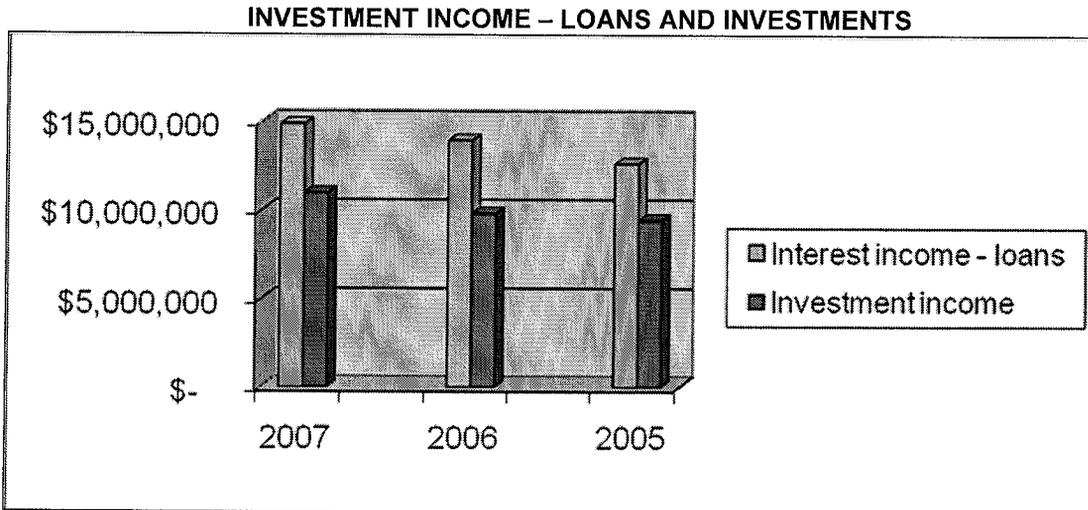
CHANGES IN NET ASSETS

The Agency's change in net assets for the fiscal year ended June 30, 2007 was \$18,387,184. The increase in investment income results from the following: an increase in interest rates on both short and long term investments and unrealized gains on certain investments at June 30, 2007. In 2007 grant income decreased due the Agency closing a small Drinking Water bond issue which had a small debt service reserve fund coupled with decreases in EPA Federal Capitalization Grant Awards.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Interest income - loans	\$ 14,875,145	\$ 13,945,467	\$ 12,635,671
Investment income	10,973,270	9,825,064	9,447,001
Grant income - DEM & DOH	2,122,961	2,478,586	2,349,948
Grant income - federal and state	15,014,510	23,930,655	23,985,353
Other operating revenues	<u>3,551,255</u>	<u>3,189,987</u>	<u>2,665,487</u>
Total revenues	<u>46,537,141</u>	<u>53,369,759</u>	<u>51,083,460</u>
Expenses:			
Interest expense	24,889,483	23,376,912	20,265,522
Other operating expenses:			
Consulting fees: DEM & DOH	2,122,961	2,478,586	2,349,948
General administration	964,113	919,229	816,457
Professional fees	<u>173,400</u>	<u>168,276</u>	<u>171,348</u>
Total expenses	<u>28,149,957</u>	<u>26,943,003</u>	<u>23,603,275</u>
Increase in net assets	18,387,184	26,426,756	27,480,185
Net assets, beginning of year	<u>318,189,174</u>	<u>291,762,418</u>	<u>264,282,233</u>
Net assets, end of year	<u><u>\$336,576,358</u></u>	<u><u>\$318,189,174</u></u>	<u><u>\$291,762,418</u></u>

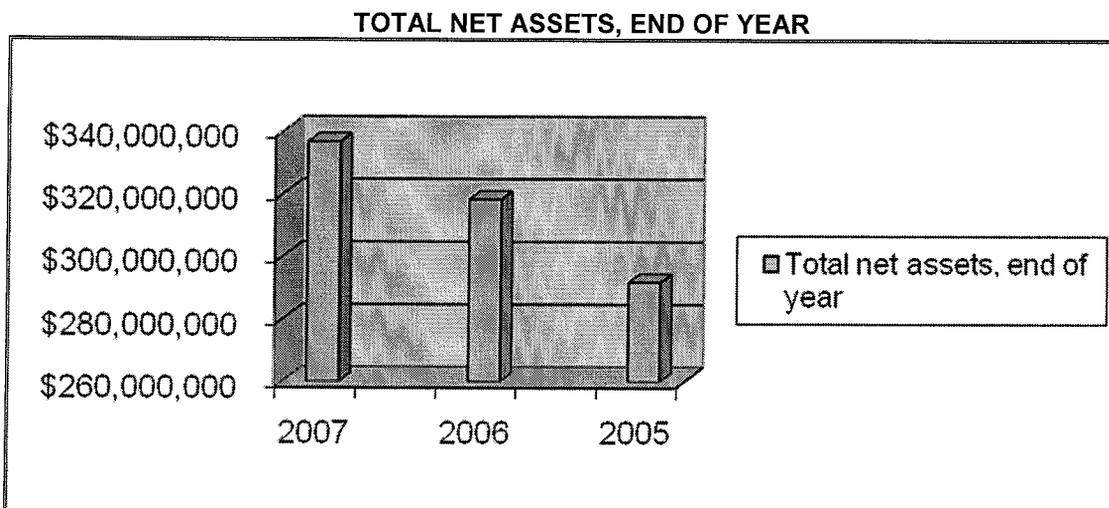
**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

As graphically portrayed below, the increase of 7% in interest income-loans is related to the growth in the Agency's portfolio.



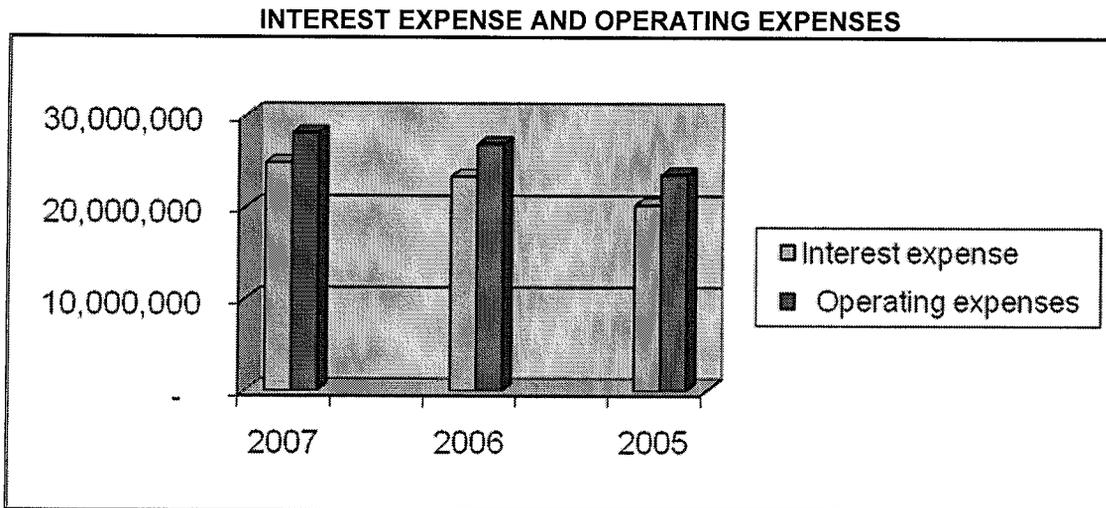
As graphically shown above and discussed earlier, investment income increased from \$9,825,064 at June 30, 2006 to \$10,973,270 at June 30, 2007 representing a modest 12% increase.

The increase in investment income combined with the decrease in grant income – federal and state resulted in a 13% decrease in total income. Total net assets at June 30, 2007 was \$336,576,358 which was an increase of 6% over fiscal year June 30, 2006.



**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

An increase of 6% in interest expense is related to the Agency closing one bond issue in the Clean Water State Revolving Fund and one bond issue in the Drinking Water State Revolving Fund. As the Agency's outstanding debt increases, operating expenses will increase due to the additional administrative costs associated with overseeing its outstanding bonds and servicing its growing loan portfolio.



BUDGETARY RESULTS:

The Agency prepares an annual operating budget (approved by the Agency's Board of Directors) that is used as a management tool for tracking the various revenues and expenses. For the fiscal year ended June 30, 2007 the Agency realized a positive budgetary variance related to its administrative expenses.

DEBT ADMINISTRATION:

The Agency administers the Water Pollution Control and the Rhode Island Water Pollution Control revolving loan funds created under Title VI of the Federal Clean Water Act and its State counterpart which is known as the Clean Water State Revolving Fund (CWSRF). The Agency also administers the Drinking Water State Revolving Fund (DWSRF) created under the Federal Safe Drinking Water Act amendments of 1996. The Agency has established a Community Septic System Loan Program (CSSLP) as part of the Federal Clean Water State Revolving Fund. The Agency also provides conduit loans to municipalities for various water and wastewater system improvements. In addition, the Agency created a Rhode Island Zero Interest Loan Fund (RIZILF). This fund was established under the authority of Chapter 55 of the 2000 Public Laws of Rhode Island. The Agency received state bond proceeds totaling \$60,000,000 of which approximately \$57,000,000 was used to fund the RIZILF and \$3,000,000 was used to provide state match dollars for the Drinking Water State Revolving Fund (DWSRF) program. To date, the Agency has made 46 loans totaling \$222 million of zero interest loans.

At June 30, 2007, the Agency had \$576,950,000 of bond indebtedness, an increase of 8% from the \$535,850,000 outstanding at June 30, 2006. Detailed information related to its Agency's debt is presented in Note 2 to the financial statements.

**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

The Agency (Board of Directors and Staff) is proud of the confidence placed in the Agency by the three nationally recognized rating services who continue to rate Agency Bonds as follows:

Fitch - IBCA	AAA
Standard & Poor's	AAA
Moody's	Aaa

The Agency has experienced growth in all aspects of its operations and the future of the Agency continues in a positive direction.

The Agency's Board of Directors voted to designate all net assets in excess of the Agency's annual operating budget to be used for interim and short-term loans to qualified borrowers.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006**

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 31,628,066	\$ 36,112,137
Cash equivalents	19,785,216	17,401,042
Investments	46,525,460	48,988,383
Total unrestricted cash, cash equivalents and investments	97,938,742	102,501,562
Restricted:		
Cash	19,496	1,897,771
Investments	158,223,505	143,899,447
Total restricted cash, cash equivalents and investments	158,243,001	145,797,218
Loans receivable, net	33,375,459	29,054,673
Accrued interest receivable:		
Loans	4,772,027	4,457,468
Investments	2,888,647	2,630,611
Accounts receivable – service fees	1,014,785	920,536
Prepaid expenses and other receivables	126,560	130,594
Total current assets	298,359,221	285,492,662
Noncurrent assets:		
Loans receivable, net	634,656,362	584,044,466
Bond issuance costs, net of accumulated amortization	5,900,338	5,380,565
Total noncurrent assets	640,556,700	589,425,031
Capital assets:		
Property and equipment, net of accumulated depreciation	34,694	42,961
TOTAL ASSETS	938,950,615	874,960,654
<u>LIABILITIES</u>		
Current liabilities:		
Bonds payable	25,700,000	21,830,000
Accrued interest payable	6,850,610	6,322,891
Accounts payable and accrued expenses	603,162	519,274
Total current liabilities	33,153,772	28,672,165
Noncurrent liabilities:		
Bonds payable, net of current portion	567,008,401	527,369,581
Accrued arbitrage rebate	2,212,084	729,734
Total noncurrent liabilities	569,220,485	528,099,315
TOTAL LIABILITIES	602,374,257	556,771,480
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	34,694	42,961
Restricted	318,427,286	303,586,028
Unrestricted	18,114,378	14,560,185
TOTAL NET ASSETS	\$336,576,358	\$318,189,174

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Investment income	\$ 10,973,270	\$ 9,825,064
Interest income - loans	14,875,145	13,945,467
Grant income - operating	2,122,961	2,478,586
Service fees.....	2,934,325	2,627,925
Direct loan fees and other	145,978	122,552
Loan origination fees	470,952	439,510
Total operating revenues	<u>31,522,631</u>	<u>29,439,104</u>
Operating expenses:		
Interest expense.....	24,889,483	23,376,912
Consulting fees - D.E.M and D.O.H.	2,122,961	2,478,586
Employee expense.....	483,680	456,403
Finance expense	1,650	2,101
Insurance expense.....	22,291	32,795
Legal fees.....	32,900	27,350
Office expense	82,190	82,773
Accounting, auditing, and arbitrage fees.....	19,167	18,572
Depreciation and amortization expense	350,756	319,541
Bank fees	108,833	94,354
Promotional expenses.....	7,224	8,737
Financial advisor fees.....	12,500	28,000
Dues and subscriptions.....	6,861	6,427
Seminars	1,385	1,470
Business and travel expense	4,028	7,124
Miscellaneous expense.....	4,048	1,858
Total operating expenses	<u>28,149,957</u>	<u>26,943,003</u>
Operating income.....	3,372,674	2,496,101
Nonoperating revenue:		
Grant income - non-operating	<u>15,014,510</u>	<u>23,930,655</u>
Changes in net assets.....	18,387,184	26,426,756
Net assets, beginning of the year	<u>318,189,174</u>	<u>291,762,418</u>
Net assets, end of the year	<u>\$336,576,358</u>	<u>\$318,189,174</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash receipts for operating grants	\$ 2,122,961	\$ 2,478,586
Cash receipts for loan origination fees	760,905	586,404
Cash receipts for service fees	2,840,076	2,473,961
Cash receipts for direct loan fees and other	145,978	122,552
Cash payments to suppliers	(2,338,116)	(6,487,257)
Cash payments to employees	(483,680)	(456,403)
Net cash provided by (used for) operating activities	<u>3,048,124</u>	<u>(1,282,157)</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	<u>(2,278)</u>	<u>(5,141)</u>
Cash flows from non-capital financing activities:		
Proceeds from bond issuance	66,070,073	50,275,289
Repayment of bond principal	(21,830,000)	(17,890,000)
Non-operating grants received	15,014,510	23,930,655
Interest paid on revenue bonds	(25,093,017)	(23,714,880)
Bond issuance costs capitalized	(859,983)	(543,240)
Repayment of bond anticipation note	0	(7,719,000)
Net cash provided by non-capital financing activities	<u>33,301,583</u>	<u>24,338,824</u>
Cash flows from investing activities:		
Cash disbursed in lending activities, net	(55,222,635)	(74,151,964)
Investment income	12,197,583	9,828,448
Interest income – loan program	14,560,586	13,531,587
Purchase of investments	(76,268,176)	(66,319,823)
Proceeds from sale of investments	64,407,041	96,718,773
Net cash used for investing activities	<u>(40,325,601)</u>	<u>(20,392,979)</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,978,172)</u>	<u>2,658,547</u>
Cash and cash equivalents, beginning of the year	<u>55,410,950</u>	<u>52,752,403</u>
Cash and cash equivalents, end of the year	<u>\$ 51,432,778</u>	<u>\$ 55,410,950</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ 3,372,674	\$ 2,496,101
Adjustments:		
Investment income	(12,455,619)	(9,832,761)
Interest income - loans	(14,875,145)	(13,945,467)
Interest expense	24,889,483	23,376,912
Depreciation/amortization	350,756	319,541
Decrease in prepaid expenses	4,034	4,663
Increase (decrease) in accounts payable and accrued expenses	83,888	(3,701,773)
Increase in accrued arbitrage rebate	1,482,349	7,696
Increase in accounts receivable – service fees	(94,249)	(153,964)
Increase in deferred loan origination fees	289,953	146,895
Net cash provided by (used for) operating activities	<u>\$ 3,048,124</u>	<u>\$ (1,282,157)</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business Purpose and General Information

The Rhode Island Clean Water Finance Agency (Agency) was established by the State of Rhode Island Legislature as a body politic and corporate and public instrumentality of the State having distinct legal existence separate from the State and does not constitute a department of the State Government. The Agency was established for the express purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and wastewater management districts in Rhode Island for the construction or upgrading of water pollution abatement projects. The Agency will be funded through Federal and State capitalization grants and is authorized to issue revenue bonds to finance the operation and administration of two state revolving fund loan programs.

The Agency commenced operations on July 29, 1990 and began lending activities during the first quarter of fiscal year 1992.

The Agency is a component unit of the State of Rhode Island for financial reporting purposes and as such, the financial statements of the Agency will be included in the State of Rhode Island's Comprehensive Annual Financial Report. The Agency is not subject to Federal or State income taxes.

The Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency's net assets are restricted by debt covenants and grantor restrictions.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(b) Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis.

The Agency has elected not to apply Financial Accounting Standards Boards statements and interpretations, accounting principles, board opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fund Accounting

In order to ensure observation of limitations and restrictions placed on the use of resources available to the Agency, the accounts of the Agency will be 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; however, funds will be combined for the presentation of the Agency's financial position and results of operations.

There are currently four separate funds included in the accompanying financial statements:

Water Pollution Control Revolving Fund (WPCRF) – accounts for activity relating to the administering of the Federal Title VI SRF Loan Program (also known as the Clean Water SRF Program).

Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) – accounts for activity relating to the administering of the State SRF Loan Program.

Operating Fund – accounts for the operating activities of the Agency as well as for servicing loans for the Clean Water SRF, the Drinking Water SRF, and the Drinking Water SRF Set-Aside Programs.

Drinking Water State Revolving Fund (DWSRF) – accounts for activity relating to the administering of the Drinking Water SRF Loan Program.

(d) Investment Income

Interest earned on investments is recognized as income in the fund in which the investments are held.

(e) Investments

The Agency's investments as of June 30, 2007 and 2006 consisted of Treasury obligations, U.S. guaranteed securities in the form of Repurchase Agreements and Guaranteed Investment Contracts (both restricted and unrestricted yields by the Indenture of Trust dated February 15, 1992 and subsequent amendments, between the trustee and the Agency). The Municipal Bond Investors Assurance Corporation and AMBAC has imposed restrictions on indentured funds as to the types of investments the Agency can purchase. These include obligations of the United States government or certain Agencies thereof, guaranteed investment contracts, repurchase agreements, certificates of deposit, money market funds, commercial paper, and notes or bonds of any State meeting specific rating requirements.

Guaranteed Investment Contract providers (GIC providers) are limited to financial institutions rated at least AA, Aa2 and AA from Standard & Poor's, Moody's and Fitch, respectively, or the equivalent for financial strength rating or claims paying ability. The GIC provider must meet the following ratings from S&P, Moody's and Fitch: domestic banks rated at least "AA/Aa2/AA"; U.S. branches of foreign banks rated at least "AA/Aa2/AA" or "AA/Aa2/AA"; insurance companies (or corporations whose obligations are guaranteed by an insurance company (in the form of an insurance policy) or by an insurance holding company) rated "AAA/Aaa/AAA". The provider must be acceptable to the Issuer, MBIA and AMBAC.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments (Continued)

Should the GIC Provider's rating be suspended, withdrawn or downgraded below AA- Fitch, Aa3 by Moody's or AA – by S&P during the term of the Agreement, the Provider must notify the Trustee and, within fifteen (15) days of receipt of notice from the Trustee: (i) provide to the Trustee, or other mutually agreed upon third party custodian, collateral which will be valued and held such that the Provider maintains the applicable minimum rating for the duration and purpose of this Investment, or (ii) at the request of the Trustee, assign the Agreement to an eligible substitute provider, or (iii) at the request of the Trustee, repay the amount on deposit, plus accrued interest to the Trustee.

In accordance with Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet its minimum capital standards as required by its Federal regulator must be collateralized. The Agency did not have any deposits in fiscal year 2007 and 2006 which required collateralization based on the aforementioned criteria.

Investments are stated at fair value. Fair values are established by quoted market values. Unrealized gains and losses from the changes in fair value are recognized as investment income.

(f) Cash and Cash Equivalents

Cash equivalents include repurchase agreements with maturities of three months or less when purchased.

The Agency's cash management program includes the automatic "sweeping" of the Agency's bank accounts into overnight collateralized repurchase agreements. The Agency had repurchase agreements of \$19,785,216 and \$17,401,042 at June 30, 2007 and 2006, respectively.

(g) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Depreciation expense for fiscal years 2007 and 2006 totaled \$10,545 and \$12,536, respectively. The Agency's capitalization threshold is any individual item with a total cost greater than \$500.

Depreciation is provided by use of the straight-line method over the following estimated useful lives of the assets:

<u>Asset Category</u>	<u>Estimated Useful Life</u>
Computer equipment	3 years
Equipment, furniture, and fixtures	3 – 5 years
Leasehold improvements	7 – 20 years

(h) Accrued Arbitrage Rebate

Investment income is limited to the bond yield on certain tax-exempt bond issues. Interest income in excess of this limit has been reserved for rebate in accordance with applicable financing documents. Investment income earned in excess of the allowable amounts will be remitted to the Federal Government as required by the applicable laws and regulations.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Loan Related Fees and Costs

Loan fees and certain direct loan origination costs are deferred, and the net fee is recognized in income using the effective yield method over the contractual life of the loans. The Agency had unamortized deferred loan origination fees totaling \$5,393,769 and \$5,103,816 at June 30, 2007 and 2006, respectively.

(j) Bond Issuance Costs

Costs relating to bond issuance consist of professional fees and staff expenses and are capitalized and amortized on a straight-line basis over the life of the bond or to the date at which the Agency has the right to redeem the bond, whichever is less. Amortization expense for fiscal years 2007 and 2006 totaled \$340,211 and \$307,004, respectively.

(k) Bond Premium

Bond premiums are amortized using the effective interest method over the respective lives of the serial bonds. Amortization of bond premiums, which are charged against interest expense, totaled \$840,047 and \$736,698 for fiscal years 2007 and 2006, respectively.

(l) Allowance for Loan Losses

Management reviews loan receivable balances on a periodic basis for possible uncollectible amounts. In the event management determines a specific need for an allowance, provision for loss will then be provided. Should a borrower default on a loan, the remedy is found in the loan agreement which is backed by the full taxing power of the borrowing municipality in the form of a general obligation pledge or in the full revenue collecting ability of the Agency's revenue borrowers. Further, the Indenture of Trust as it relates to the Local Interest Subsidy Trust (LIST) serves as a debt service reserve fund. Based upon prior years' experience and management's evaluation of outstanding loan receivable balances, no allowance for loan losses has been provided at June 30, 2007 and 2006.

(m) Grant Revenue

The Agency recognizes state and federal grant revenues upon the acceptance of their request for drawdown of these revenues by the grantor agency.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(o) Operating Revenues and Expenses

Operating revenues and expenses consist of items related to the operating activities of the Agency, such as service fees, loan origination fees, and interest earned on loans receivable, and administrative expenses incurred by operations. All other revenues and expenses not meeting this criteria are reported as nonoperating revenue and expenses.

(p) Restricted Assets

Restricted assets of the Agency represent monies designated for debt service reserve and to subsidize borrower interest rates.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Recently Issued Accounting Standards

The Agency implemented GASB No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, for the year ended June 30, 2007. The adoption of this Statement did not have an impact on the Agency's financial position or results of operations.

The Agency has implemented GASB No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27, for the year ended June 30, 2007. The adoption of this Statement did not have an impact on the Agency's financial position or results of operations.

The Agency adopted the following accounting pronouncements for the year ended June 30, 2006:

- √ GASB Statement No. 42 - Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.
- √ GASB Statement No. 46 – Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34).
- √ GASB Statements No. 47 – Accounting for Termination Benefits.

The adoption of these Statements did not have an impact on the Agency's financial position or results of operations.

The Agency will adopt the following new accounting pronouncement in future years:

- √ GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, effective for the Agency's fiscal year ending June 30, 2008.
- √ GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets, effective for the Agency's fiscal year ending June 30, 2009.

The impact of these pronouncements on the Agency's financial statements has not been determined.

(r) Income Tax

The Agency is exempt from federal and state income taxes.

2. BONDS PAYABLE

Since its inception, the Agency has issued revenue bonds to local governments to finance water pollution abatement projects. The bonds are special obligations of the Agency payable solely from and secured by the particular funds, assets or revenues, generated by the Borrower Bonds. The Bonds do not constitute an indebtedness of the State or any of its subdivisions and none of its revenues are pledged. The Agency has no taxing power.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

2. BONDS PAYABLE (Continued)

The Agency has the following revenue bonds outstanding at June 30:

	<u>2007</u>	<u>2006</u>
Water Pollution Control Revolving Fund Revenue Bonds:		
1992 Series A Bonds, dated February 15, 1992, with serial bonds of \$15,875,000 at rates varying from 3.5% to 6.6% due annually from October 1, 1993 through October 1, 2008 and term bonds of \$2,390,000 at 6.7% due October 1, 2010 and \$2,650,000 at 6.75% due October 1, 2013. On February 4, 1999, the Agency advance refunded \$9,210,000 of the outstanding bonds.....	\$ 700,000	\$ 900,000
1993 Series A Bonds, dated February 15, 1993, with serial bonds of \$23,450,000 at rates varying from 3.8% to 9.2% due annually from October 1, 1996 through October 1, 2010 and a term bond of \$10,185,000 at 5.4% due October 1, 2015	17,590,000	19,320,000
1994 Series A Bonds, dated June 1, 1994, with serial bonds of \$18,495,000 at rates varying from 5.0% to 7.7% due annually from October 1, 1995 through October 1, 2012 and a term bond of \$3,935,000 at 5.875% due October 1, 2015. On February 4, 1999, the Agency advance refunded \$5,725,000 of the outstanding bonds....	5,665,000	6,800,000
1995 Series A Bonds, dated December 15, 1995, at rates varying from 4.15% to 7.00% due annually from October 1, 1997 through October 1, 2016	3,270,000	3,600,000
1999 Series A Bonds, dated January 1, 1999, with serial bonds of \$19,590,000 at rates varying from 3.7% to 5.25% due annually from October 1, 2002 through October 1, 2016 and term bonds of \$3,765,000 at 4.75% due October 1, 2018 and \$2,470,000 at 4.75% due October 1, 2020	24,375,000	24,675,000
1999 Series C Bonds, dated August 1, 1999, with serial bonds of \$24,010,000 at rates varying from 4.15% to 5.50% due annually from October 1, 2001 through October 1, 2019	17,965,000	19,165,000
2000 Series A Bonds, dated December 1, 2000 with serial bonds of \$26,550,000 at rates varying from 4.50% to 5.125% due annually from October 1, 2001 through October 2020	19,755,000	20,930,000
2002 Series A Bonds, dated April 1, 2002, with serial bonds of \$29,305,000 at rates varying from 3.00% to 5.50% due annually from October 1, 2002 through October 1, 2022	24,505,000	25,710,000
2002 Series B Bonds, dated October 1, 2002, with serial bonds of \$76,035,000 at rates varying from 2.0% to 5.0% due annually from October 1, 2004 through October 1, 2022	63,950,000	67,300,000
2003 Series A Bonds, dated June 5, 2003, with serial bonds of \$14,870,000 at rates varying from 1.220% to 4.280% due annually from October 1, 2005 through October 1, 2023	13,820,000	14,320,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

2. BONDS PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
2003 Series B Bonds, dated November 13, 2003, with serial bonds of \$67,965,000 at rates varying from 2.00% to 5.250% due annually from October 1, 2005 through October 1, 2024	61,865,000	64,965,000
2004 Series A Bonds, dated December 30, 2004, with serial bonds of \$69,625,000 at rates varying from 2.50% to 5.00% due annually from October 1, 2005 through October 1, 2025	65,090,000	67,950,000
2005 Series A Bonds, dated December 15, 2005, with serial bonds of \$49,080,000 at rates varying from 4.00% to 5.00% due annually from October 1, 2006 through October 1, 2026	48,085,000	49,080,000
2006 Series A Bonds, dated December 21, 2006, with serial bonds of \$57,795,000 at rates varying from 3.40% to 5.00% due annually from October 1, 2007 through October 1, 2027	57,795,000	0
Safe Drinking Water Revenue Bonds:		
2003 Series A Bonds, dated December 17, 2003, with term bonds of \$5,840,000 at 5.00% due annually from October 1, 2025 through October 1, 2028 and term bonds of \$13,500,000 at 5.00% due annually from October 1, 2029 through October 1, 2035.....	19,340,000	19,340,000
2003 Series B bonds (federally taxable), dated December 17, 2003, with term bonds of \$7,655,000 at 6.00% due annually from October 1, 2025 through October 1, 2035	7,655,000	7,655,000
2004 Series A Bonds, dated March 31, 2004, with serial bonds of \$40,170,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2005 through October 1, 2024	37,095,000	39,025,000
2005 Series A Bonds, dated March 23, 2005, with serial bonds of \$42,960,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2006 through October 1, 2027	42,205,000	42,960,000
2007 Series A Bonds, dated March 7, 2007, with serial bonds of \$5,135,000 at rates varying from 4.00% to 4.125% due annually from October 1, 2008 through October 1, 2019	5,135,000	0
Wastewater Treatment System Revenue Bonds:		
1997 Series Bonds, dated August 1, 1997. The Series 1997 Bonds mature on September 1, 2022, with sinking fund payments due on September 1, 1999, and September 1, 2018 through September 1, 2022, inclusive. Interest of 5.8% is due annually on March 1, and September 1.....	28,490,000	28,490,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

2. BONDS PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Refunding Bonds:		
1999 Series B Bonds, dated January 1, 1999 with serial bonds of \$16,830,000 at rates varying from 3.0% to 4.75% due annually from October 1, 1999 through October 1, 2015	12,600,000	13,665,000
Subtotal	576,950,000	535,850,000
Less: amount deferred on refunding	(887,028)	(995,822)
Add: bond premium (discount) net of amortization	16,645,429	14,345,403
Total bonds payable	\$592,708,401	\$549,199,581

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Long-term debt:					
General obligation debt	\$535,850,000	\$62,930,000	\$21,830,000	\$576,950,000	\$25,700,000
Plus: bond premium (discount), net of amortization	14,345,403	3,140,073	840,047	16,645,429	
Less: amount deferred on refunding	(995,822)	0	(108,794)	(887,028)	
Total long-term debt	\$549,199,581	\$66,070,073	\$22,561,253	\$592,708,401	\$25,700,000

Annual principal and interest requirements are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 25,700,000	\$ 26,317,535	\$ 52,017,535
2009	28,610,000	25,246,399	53,856,399
2010	29,040,000	24,098,614	53,138,614
2011	29,450,000	22,934,715	52,384,715
2012	30,255,000	21,702,999	51,957,999
2013 - 2017	150,285,000	88,307,445	238,592,445
2018 - 2022	165,945,000	50,614,106	216,559,106
2023 - 2027	90,985,000	15,071,495	106,056,495
2028 - 2032	15,005,000	4,753,244	19,758,244
2033 - 2036	11,675,000	1,276,399	12,951,399
Total	\$576,950,000	\$280,322,951	\$857,272,951

Bond Anticipation Note

On March 9, 2004, the Agency issued a 2004 Series A Bond Anticipation Note on behalf of a local community to provide interim financing. The Note principal was \$7,719,000, had an original maturity date of March 1, 2007, and required interest at 2.60%. The note was repaid in full on January 17, 2006.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

3. LOANS RECEIVABLE

At June 30, 2007 and 2006, the Agency had loans receivable of \$673,425,590 and \$618,202,955 representing 117 and 107 outstanding loans, respectively. At June 30, 2007 and 2006, the current portion of loans receivable (net of loan origination fees) totaled \$33,375,459 and \$29,054,673, respectively. In addition, at June 30, 2007 and 2006, the Agency had outstanding unused commitments totaling approximately \$64,723,033 and \$69,914,420 for the disbursement of future loans. For financial reporting purposes on the statement of net assets, total 2007 outstanding loans receivable of \$673,425,590 have been reduced by unamortized loan origination fees totaling \$5,393,769. For 2006, total outstanding loans receivable of \$618,202,955 have been reduced by unamortized loan origination fees totaling \$5,103,816.

The borrowers are obligated to repay the full balance of loan agreements; however, funds are disbursed by the Agency in accordance with the loan agreements as costs are incurred for the projects for which the loans are intended. The Agency disburses funds to the borrowers and/or vendors, no more than once a month, after receipt of an official request for disbursement, which is accompanied by supporting documentation. The Agency is obligated to disburse funds only up to the value of the loan agreement, and is not responsible for any excess costs incurred by the borrower. The borrower, in turn, is obligated to make principal and interest payments in accordance with the repayment schedules per the loan documentation even if funds have not been fully disbursed by the Agency at the time of first payment. Loans are usually repaid over 20 years with either level principal or level total payments. The balances of the loan agreements may include financing for the interest expense to be incurred by the borrowers during the period of construction.

The Agency has established a Local Interest Subsidy Trust (LIST) Fund, which is restricted by the Indenture of Trust between the trustee and the Agency and may be used to make the required bond payments in the event of default by the borrowers.

At June 30, 2007, the Agency had outstanding loans receivable to two borrowers representing 57% of the Agency's total loan receivable balance. At June 30, 2006, the Agency had outstanding loans receivable to two borrowers representing 58% of the Agency's total loan receivable balance.

4. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED LIST INVESTMENTS

(a) Cash

Custodial Credit Risk, Deposits - The Agency does not have a deposit policy for custodial credit risk.

At June 30, 2007, the carrying amount of the Agency's cash balance was \$31,647,562. The bank balance was \$31,776,068 as of the same period. Of the bank balance at June 30, 2007, \$100,000 was covered by the Federal Depository Insurance Corporation (the "FDIC"), and \$31,676,068 (\$31,501,068 was held in money market trust accounts), was uninsured.

At June 30, 2006, the carrying amount of the Agency's cash balance was \$38,009,908. The bank balance was \$38,188,266 as of the same period. Of the bank balance at June 30, 2006, \$100,000 was covered by the Federal Depository Insurance Corporation (the "FDIC"), and \$38,088,266 (\$37,863,266 was held in money market trust accounts), was uninsured.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

4. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED LIST INVESTMENTS (Continued)

(b) Cash Equivalents, and Other Investments

The table below categorizes the Agency's investments so as to provide an indication of the level of market risk and credit risk assumed by the Agency at year end. Market risk is the risk that the market value of an investment, collateral securing the investment or securities underlying a repurchase agreement will decline. Credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with the custodian of securities or collateral. Category 1 includes insured or registered securities held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered with securities held by the counterparty or by its trust department or agent, but not in the Agency's name. The Agency does not have any investments within Category 3, and therefore is not subject to the custodial credit risk disclosures of GASB 40.

At June 30, 2007 the investments held by the Agency were as follows:

<u>Description</u>	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash Equivalents:				
Collateralized Repurchase Agreements...	\$19,785,216	\$ 0	\$0	\$19,785,216
Other Investments:				
Federal National Mortgage Association ...		13,034,784		13,034,784
Collateralized Repurchase Agreements	13,404,969			13,404,969
Subtotal	<u>\$33,190,185</u>	<u>\$13,034,784</u>	<u>\$0</u>	
Other Investments not subject to categorization:				
Collateralized Investment Contracts				118,042,852
Uncollateralized Investment Contracts.....				<u>60,266,360</u>
Subtotal				<u>204,748,965</u>
Total other investments				<u>\$224,534,181</u>

The following investments represented more than 5% of the Agency's total investments at June 30, 2007:

	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Collateralized Investment Contracts:			
AIG Matched Funding Corp	\$12,474,652	2022	4.75%
FSA Capital Management Services, LLC.	\$11,618,404	2024	4.71%
FSA Capital Management Services, LLC.	\$14,861,817	2025	4.67%
Wells Fargo Bank, N.A.....	\$27,190,687	2008	5.071%
AIG Matched Funding Corp	\$16,818,785	2024	4.1836%
Uncollateralized Investment Contracts:			
Bayerische Landesbank.....	\$14,568,514	2020	5.33%
CitiGroup Financial Products, Inc.....	\$14,439,300	2027	4.805%

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

4. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED LIST INVESTMENTS (Continued)

(b) Cash Equivalents, and Other Investments (Continued)

At June 30, 2006, the investments held by the Agency were as follows:

<u>Description</u>	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash Equivalents:				
Collateralized Repurchase Agreements...	\$17,401,042	\$ 0	\$0	\$17,401,042
Other Investments:				
Federal National Mortgage Association ...		12,818,000		12,818,000
Collateralized Repurchase Agreements...	14,603,686			14,603,686
Subtotal	<u>\$32,004,728</u>	<u>\$12,818,000</u>	<u>\$0</u>	
Other Investments not subject to categorization:				
Collateralized Investment Contracts				67,672,327
Uncollateralized Investment Contracts.....				<u>97,793,817</u>
Subtotal				<u>192,887,830</u>
Total other investments				<u>\$210,288,872</u>

The following investment contracts represented more than 5% of the Agency's total investments at June 30, 2006:

	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Collateralized Repurchase Agreements:			
Westdeutsche Landesbank.....	\$10,664,486	2019	6.28%
Collateralized Investment Contracts:			
AIG Matched Funding Corp	\$12,350,146	2022	4.75%
FSA Capital Management Services, LLC.	\$12,200,592	2024	4.71%
FSA Capital Management Services, LLC.	\$15,506,046	2025	4.67%
Uncollateralized Investment Contracts:			
Bayerische Landesbank	\$14,580,032	2009	5.33%
AIG Matched Funding Corp	\$17,693,843	2024	4.18%
XL Asset Funding	\$22,336,870	2007	4.44%
Transamerica Occidental Life Insurance Company	\$11,388,078	2025	4.77%
XL Asset Funding	\$20,178,458	2008	3.67%

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

5. CAPITALIZATION GRANTS

(a) Clean Water State Revolving Fund (CWSRF):

The Agency receives capitalization grants from the Environmental Protection Agency for the Clean Water State Revolving Fund under Title VI of the Clean Water Act. These grants are used to fund the Agency's lending activities and to reimburse the State Department of Environmental Management for up to 4% of the capitalization grant for expenses incurred for services they provide the Agency related to these lending activities. In order to obtain the federal monies under the Title VI grant program, the Agency must also obtain a commitment for state matching funds of 20% of the federal award.

The following is a table of the federal and state matching funds awarded to the Agency and the balances remaining for drawdown under Title VI of the Clean Water Act as of June 30, 2007:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
1995:		
Federal award	\$ 8,254,100	\$ 0
State match	1,650,820	0
1996:		
Federal award	13,547,500	0
State match	2,709,500	0
1997:		
Federal award.....	4,127,100	88,634
State match	825,420	0
2001:		
Federal award	8,921,900	0
State match	1,784,380	0
2003:		
Federal award	8,883,300	0
State match	1,776,660	0
2004:		
Federal award	8,888,700	0
State match	1,777,740	0
2005:		
Federal award	7,208,600	0
State match	1,441,720	0
2006:		
Federal award	5,839,300	233,572
State match	1,167,860	0
2007:		
Federal award (applied for August 2007).....	7,159,200	7,159,200
State match (applied for August 2007).....	1,431,840	1,431,840

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

5. CAPITALIZATION GRANTS (Continued)

(b) Drinking Water State Revolving Fund (DWSRF)

The Agency also receives capitalization grants from the Environmental Protection Agency for the Drinking Water State Revolving Fund under Section 1452 of the Safe Drinking Water Act Amendments of 1996. The grants will be used to provide loans to water suppliers for system improvements and to provide funding for various improvement programs administered by the RI Department of Health to bring water suppliers in the State up to the minimum standards promulgated by the Safe Drinking Water Act. As in the Clean Water SRF, up to 4% is to be used for program administration by both the Agency and Department of Health. In order to receive the funding from EPA, the Agency must commit 20% of the Federal award in the form of State matching funds. The Agency agrees to provide, through methods available to it, the appropriate state matching funds to each grant.

The following table shows the DWSRF federal awards and remaining balances as of June 30, 2007:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
1997:		
Federal award	\$12,558,800	\$ 772,577
State match	2,511,760	0
1998:		
Federal award	7,121,300	79,323
State match	1,424,260	0
1999:		
Federal award	7,463,800	156,348
State match	1,492,760	0
2000:		
Federal award	7,757,000	0
State match	1,551,400	0
2001:		
Federal award	7,789,100	0
State match	1,557,820	0
2002:		
Federal award	8,052,500	396,893
State match	1,610,500	0
2003:		
Federal award	8,004,100	2,866,953
State match	1,600,820	0
2004:		
Federal award	8,303,100	4,771,367
State match	1,660,620	0
2005:		
Federal award	8,285,500	8,285,500
State match	1,657,100	1,657,100

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

5. CAPITALIZATION GRANTS (Continued)

(b) Drinking Water State Revolving Fund (DWSRF) (Continued)

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2006:		
Federal award (applied for August 2007).....	\$8,229,300	\$8,229,300
State match (applied for August 2007).....	1,645,860	1,645,860

6. DEFERRED COMPENSATION

The Agency offers its employees "The Rhode Island Clean Water Protection Finance Agency Deferred Compensation Plan" (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Agency employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Agency's Board of Directors is responsible for establishing or amending the Plan's provisions and establishing or amending contribution requirements. The Plan is currently administered by ING Life Insurance and Annuity Company.

The Agency implemented the Governmental Accounting Standards Board, Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As a result, deferred compensation investments and the respective liability have been removed from the Agency's financial statements for the years ended June 30, 2007 and 2006.

The Agency is obligated to remit to the administrator an amount equal to 10% (5% prior to July 1, 2006) of employee compensation on a monthly basis. The Agency's contribution totaled \$36,196 and \$17,177 for the years ended June 30, 2007 and 2006, respectively. Employees are allowed to make contributions to the Plan up to, but not exceeding, the lesser of 33 1/3% of their individual compensation or \$15,000 (\$20,000 if age 50 or older) for 2007. There is no additional obligation incurred by the Agency as a result of the employee contributions. Employee contributions to the Plan for the years ended June 30, 2007 and 2006 were \$27,670 and \$25,740, respectively. The Agency has an obligation to prudently manage these monies.

7. OPERATING LEASE

On June 1, 1998, the Agency entered into a seven year lease for the rental of its corporate offices. During fiscal year 2007, the Agency incurred rent expense of \$51,662, consisting of scheduled lease payments of \$49,744 plus \$1,918 in additional building assessments. During fiscal year 2006, the Agency incurred rent expense of \$49,808, consisting of scheduled lease payments of \$49,747, plus \$61 in additional property tax assessments. On April 10, 2003, the Agency amended its existing lease agreement due to the expansion of its facilities. The new lease is for a period of 60 months commencing June 1, 2003 and expiring May 2008.

The following schedule summarizes the Agency's required future minimum lease payments:

<u>Year Ending June 30:</u>	<u>Amount</u>
2008.....	<u>\$45,599</u>
Total	<u>\$45,599</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

8. PROPERTY AND EQUIPMENT

The summary of changes in property and equipment at June 30, 2007 are summarized below:

	Balance at June 30, 2006	Additions	Retirements	Balance at June 30, 2007
Cost:				
Computers.....	\$ 56,934			\$ 56,934
Furniture and fixtures	20,406			20,406
Equipment.....	15,424	\$ 2,278		17,702
Leasehold Improvements.....	29,701			29,701
Total cost	<u>122,465</u>	<u>2,278</u>	<u>\$ 0</u>	<u>124,743</u>
Accumulated depreciation:				
Computers.....	47,236	5,637		52,873
Furniture and fixtures	13,353	2,821		16,174
Equipment.....	15,202	602		15,804
Leasehold Improvements.....	3,713	1,485		5,198
Total accumulated depreciation	<u>79,504</u>	<u>10,545</u>	<u>0</u>	<u>90,049</u>
Net capital assets	<u>\$ 42,961</u>	<u>\$ (8,267)</u>	<u>\$ 0</u>	<u>\$ 34,694</u>

9. COMMITMENTS AND CONTINGENCIES

Capitalization Grants

The Rhode Island Clean Water Finance Agency receives grants from the Environmental Protection Agency (EPA) and the State of Rhode Island to fund its loan program activities. The activities of these programs through June 30, 2007 were subject to an audit under the Single Audit Act of 1996 by our independent auditors. In addition to being audited in accordance with the Single Audit Act of 1996, oversight agencies require periodic compliance audits by the grantors or their representatives. The Environmental Protection Agency conducts annual fiscal and regulatory compliance reviews to determine that Agency activities are in compliance with EPA regulations. As of June 30, 2007, no expenditures of the Agency have been disallowed. Agency officials believe that any future disallowance of expenditures would not be material.

10. DESIGNATION OF UNRESTRICTED NET ASSETS

The Agency's Board has designated its unrestricted net assets as follows:

Operating Fund - Interim/Short-term Loan Program

On October 4, 2004, the Board voted to designate all net assets in excess of the Agency's annual operating budget to be used for interim and short-term loans to qualified borrowers.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

11. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors or omissions and injuries to employees. As a result, the Agency has purchased commercial insurance to protect itself from potential liabilities from losses or claims. To date, the Agency has not incurred any claims or losses. Accordingly, management has estimated the reserve for such claims to be \$0 at June 30, 2007 and 2006.

(CONCLUDED)

SUPPLEMENTARY INFORMATION

CAYER CACCIA LLP

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board Members
Rhode Island Clean Water Finance Agency
Providence, Rhode Island

We conducted our audit for the year ended June 30, 2007 to form an opinion on the basic financial statements taken as a whole. The combining information included in Schedules 1 and 2 and the Schedule of Travel and Entertainment Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 18, 2007

Cayer Caccia, LLP.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2007

	WPCRF	RIWPCRF	OPERATING	DWSRF	Total (Memorandum Only)
ASSETS:					
Current assets:					
Cash, cash equivalents and investments:					
Unrestricted:					
Cash	\$ 10,077,668	\$ 6,165,482	\$ 41,245	\$ 15,343,671	\$ 31,628,066
Cash equivalents	520,144	1,451,952	17,045,687	767,433	19,785,216
Investments	34,943,214			11,582,246	46,525,460
Total unrestricted cash, cash equivalents and investments	45,541,026	7,617,434	17,086,932	27,693,350	97,938,742
Restricted:					
Cash	19,082			414	19,496
Investments	133,403,928			24,819,577	158,223,505
Total restricted cash, cash equivalents and investments	133,423,010	0	0	24,819,991	158,243,001
Loans receivable, net	27,704,115	2,765,411		2,905,933	33,375,459
Accrued interest receivable:					
Loans	2,626,664	432,801	907,382	805,180	4,772,027
Investments	2,418,091			470,556	2,888,647
Accounts receivable - service fees			1,014,785		1,014,785
Prepaid expenses and other receivables	385		126,175		126,560
Due from (to) other funds	13,365,501	(13,365,501)			0
Total current assets	225,078,792	(2,549,855)	19,135,274	56,695,010	298,359,221
Noncurrent assets:					
Loans receivable, net	447,027,300	45,485,252	55,345,163	86,798,647	634,656,362
Bond issuance costs, net of accumulated amortization	4,340,181		409,162	1,150,995	5,900,338
Total noncurrent assets	451,367,481	45,485,252	55,754,325	87,949,642	640,556,700
Capital assets:					
Computer equipment			56,934		56,934
Furniture and fixtures			20,406		20,406
Equipment			17,701		17,701
Leasehold improvements			29,701		29,701
Subtotal	0	0	124,742	0	124,742
Less: accumulated depreciation			(90,048)		(90,048)
Total capital assets	0	0	34,694	0	34,694
TOTAL ASSETS	676,446,273	42,935,397	74,924,293	144,644,652	938,950,615

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>WPCRF</u>	<u>RIMPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	Total (Memorandum Only)
LIABILITIES:					
Current liabilities:					
Bonds payable	23,575,000			2,125,000	25,700,000
Accrued interest payable	5,055,359		907,382	887,869	6,850,610
Accounts payable and accrued expenses			145,766	457,396	603,162
Total current liabilities	<u>28,630,359</u>	<u>0</u>	<u>1,053,148</u>	<u>3,470,265</u>	<u>33,153,772</u>
Noncurrent liabilities:					
Bonds payable, net of current portion	426,125,762		55,722,073	85,160,566	567,008,401
Accrued arbitrage rebate	2,175,133			36,951	2,212,084
Total noncurrent liabilities	<u>428,300,895</u>	<u>0</u>	<u>55,722,073</u>	<u>85,197,517</u>	<u>569,220,485</u>
TOTAL LIABILITIES	<u>456,931,254</u>	<u>0</u>	<u>56,775,221</u>	<u>88,667,782</u>	<u>602,374,257</u>
NET ASSETS:					
Invested in capital assets, net of related debt					
Restricted	219,515,019	42,935,397	34,694	55,976,870	34,694
Unrestricted			18,114,378		318,427,286
TOTAL NET ASSETS	<u>\$ 219,515,019</u>	<u>\$ 42,935,397</u>	<u>\$ 18,149,072</u>	<u>\$ 55,976,870</u>	<u>\$ 336,576,358</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	Total (Memorandum Only)
Operating revenues:					
Investment income	\$ 7,812,326	\$ 374,042	\$ 549,440	\$ 2,237,462	\$ 10,973,270
Interest income - loans	7,866,858	1,305,313	3,084,734	2,618,240	14,875,145
Grant income - operating	245,005		1,877,956		2,122,961
Service fees			2,934,325		2,934,325
Direct loan fees and other	354,199	38,201	145,978	68,284	145,978
Loan origination fees			10,268		470,952
Total operating revenues	16,278,388	1,717,556	8,602,701	4,923,986	31,522,631
Operating expenses:					
Interest expense	18,595,962		3,084,660	3,208,861	24,889,483
Consulting fees - D.E.M and D.O.H.	245,005		1,877,956		2,122,961
Employee expense			483,680		483,680
Finance expense	1,650				1,650
Insurance expense			22,291		22,291
Legal fees			32,900		32,900
Office expense			82,190		82,190
Accounting, auditing, and arbitrage fees			19,167		19,167
Depreciation and amortization expense			26,216	57,664	350,756
Bank fees	266,876		108,833		108,833
Promotional expenses			7,224		7,224
Financial advisor fees			12,500		12,500
Dues and subscriptions			6,861		6,861
Seminars			1,385		1,385
Business and travel expense			4,028		4,028
Miscellaneous expense			4,048		4,048
Total operating expenses	19,109,493	0	5,773,939	3,266,525	28,149,957
Operating income (loss)	(2,831,105)	1,717,556	2,828,762	1,657,461	3,372,674
Other revenue:					
Grant income - non-operating	5,893,938	3,167,860	0	5,952,712	15,014,510
Change in net assets	3,062,833	4,885,416	2,828,762	7,610,173	18,387,184
Transfer from (to) other funds	11,497,843	(12,102,345)	717,164	(112,662)	0
Net assets, beginning of year	204,954,343	50,152,326	14,603,146	48,479,359	318,189,174
Net assets, end of year	\$ 219,515,019	\$ 42,935,397	\$ 18,149,072	\$ 55,976,870	\$ 336,576,358

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES
YEAR ENDED JUNE 30, 2007**

Executive Director's, CWSRF Program Manager's and DWSRF Program Manager's attendance at CIFA Conference – SRF Workshop – Philadelphia, PA – November 12, 2006 – November 14, 2006:

<u>Description</u>	<u>Amount</u>
Airfare.....	\$ 465
Lodging and other	<u>1,380</u>
Total	<u>\$1,845</u>

Executive Director's and Accounting Manager's attendance at CIFA Federal Policy Conference – Washington, DC – May 2, 2007 - May 4, 2007:

Airfare.....	\$ 486
Lodging and other	<u>1,273</u>
Total	<u>\$1,759</u>

Various expenses.....	<u>424</u>
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Total expenses	<u>\$4,028</u>
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SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

CAYER CACCIA LLP

Certified Public Accountants and Business Consultants

**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 Members
Rhode Island Clean Water Finance Agency
Providence, Rhode Island

We have audited the financial statements of the Rhode Island Clean Water Finance Agency, a component unit of the State of Rhode Island, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. 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 Clean Water Finance Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Rhode Island Clean Water Finance Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Clean Water Finance Agency's internal control over financial reporting

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Clean Water Finance Agency'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 or other matters 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, Rhode Island Department of Administration, Rhode Island Auditor General, federal awarding agencies and pass-through entities and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Cayer Caccia, LLP.

September 18, 2007