

**RHODE ISLAND CLEAN WATER
FINANCE AGENCY**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2008 AND 2007**

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, 2008 and 2007, 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, 2008 and 2007, 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 22, 2008, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 - 10 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rhode Island Clean Water Finance Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such 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 22, 2008

Cayr 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, 2008. 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 accomplished a milestone at June 30, 2008 having total assets over one billion (\$1,010,197,266), which is an increase of \$71,246,651 or 7.6% over June 30, 2007.
- The Agency's capital assets at June 30, 2008 were \$46,062, which is an increase of \$11,368 or 32.8% above June 30, 2007.
- The Agency's operating revenues for the fiscal year ended June 30, 2008 were \$33,740,666, which is an increase of \$2,218,035 or 6.6% over the fiscal year ended June 30, 2007.
- The Agency's operating expenses for the fiscal year ended June 30, 2008 were \$29,801,845, which is an increase of \$1,651,888 or 5.9% over the fiscal year ended June 30, 2007.
- The Agency's total net assets for the fiscal year ended June 30, 2008 were \$351,419,087, which is an increase of \$14,842,729 or 4.4% over the fiscal year ended June 30, 2007.

2008 FISCAL SUMMARY:

In other activity, the Agency has assumed \$80,090,000 in new bond indebtedness; however the Agency has created additional assets by issuing new loans to Rhode Island borrowers totaling \$104,621,454.

- December 12, 2007, the Agency issued a \$39,740,000 Series 2007A Bond Issue. This bond issue was part of a total loan pool of \$52,071,454 made to eleven borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Barrington	\$ 3,156,170
Bristol	3,245,000
Coventry	5,000,000
Cranston	3,000,000
Middletown	1,503,284
Narragansett	600,000
NBC	25,000,000
Smithfield	850,000
Warwick	6,942,000
West Warwick	1,675,000
Woonsocket	1,100,000
	<u>\$52,071,454</u>

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

2008 FISCAL SUMMARY (Continued):

- June 5, 2008, the Agency issued a \$36,350,000 Series 2008A Bond Issue. This bond issue was part of a total loan pool of \$46,800,000 made to four borrowers in the Drinking Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Bristol County Water A	\$ 5,500,000
Newport	5,900,000
Providence WSB	35,000,000
South Kingstown	<u>400,000</u>
	<u>\$46,800,000</u>

- April 30, 2008, the Agency issued a \$4,000,000 Conduit Series 2008A Bond Issue to the City of Warwick.
- August 1, 2007, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.
- October 25, 2007, the Agency issued a CSSLP loan to the Town of South Kingstown in the amount of \$300,000.
- February 8, 2008, the Agency issued a CSSLP loan to the Town of Coventry in the amount of \$300,000.
- February 11, 2008, the Agency issued a CSSLP loan to the Town of New Shoreham in the amount of \$300,000.
- February 11, 2008, the Agency issued a CSSLP loan to the Town of Johnston in the amount of \$250,000.
- May 1, 2008, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.

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

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, nonoperating revenues, 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, 2008 was \$351,419,087, which is an increase of \$14,842,729 or 4.4% over June 30, 2007. Components of the Agency's statement of net assets were as follows at June 30:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Other assets	\$1,010,151,204	\$938,915,921	\$874,917,693
Capital assets	<u>46,062</u>	<u>34,694</u>	<u>42,961</u>
Total assets	<u>1,010,197,266</u>	<u>938,950,615</u>	<u>874,960,654</u>
Current liabilities	36,433,224	33,153,772	28,672,165
Non-current liabilities	<u>622,344,955</u>	<u>569,220,485</u>	<u>528,099,315</u>
Total liabilities	<u>658,778,179</u>	<u>602,374,257</u>	<u>556,771,480</u>
Net assets			
Invested in capital assets	46,062	34,694	42,961
Restricted for debt service	329,259,368	318,427,286	303,586,028
Unrestricted	<u>22,113,657</u>	<u>18,114,378</u>	<u>14,560,185</u>
Total net assets	<u>\$351,419,087</u>	<u>\$336,576,358</u>	<u>\$318,189,174</u>

The increases noted above in the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2008 increase results from the Agency closing a \$39.74 million Clean Water bond issue in December and a \$36.35 million Drinking Water bond issue in June. Total assets grew from \$938,950,615 at June 30, 2007 to \$1,010,197,266 at June 30, 2008. Current liabilities grew from \$33,153,772 at June 30, 2007 to \$36,433,224 or 9.9% at June 30, 2008. The growth over the past year also relates to non-current liabilities totaling \$622,344,955 which is an increase of \$53,124,470 or 9.3% over June 30, 2007. The increases noted in unrestricted assets, restricted assets, and non-current liabilities are related to the increase level of loan activity through issuance of bonds.

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

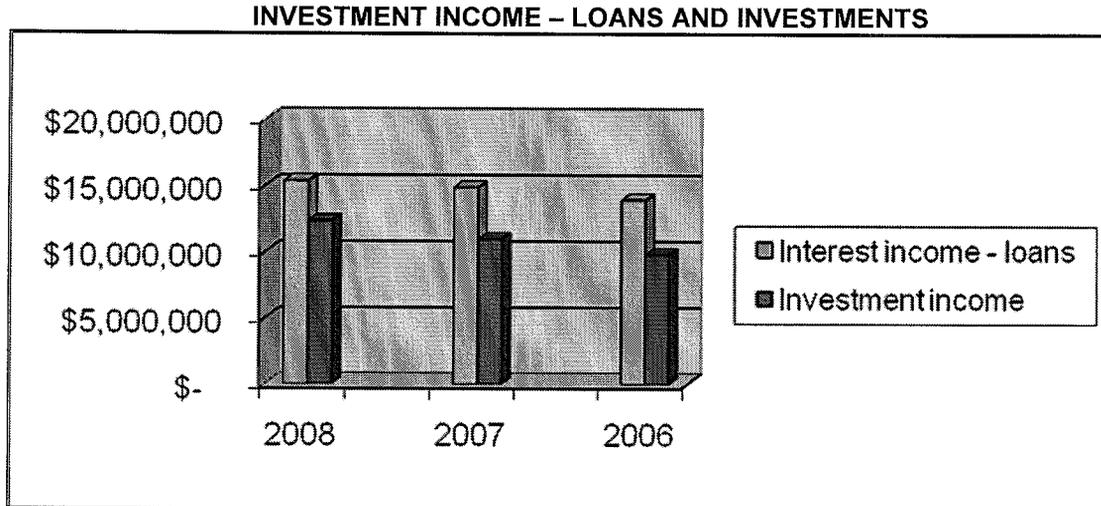
CHANGES IN NET ASSETS

The Agency's change in net assets for the fiscal year ended June 30, 2008 was \$14,842,729. The increase in investment income results from the following: an increase in interest rates on the short rates for part of the year and unrealized gains on certain investments at June 30, 2008. In 2008 Capitalization Grant income was down \$4.1 M from EPA due to the reduced Award for the Clean Water SRF.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income - loans	\$ 15,370,958	\$ 14,875,145	\$ 13,945,467
Investment income	12,376,471	10,973,270	9,825,064
Grant income - DEM & DOH	2,176,339	2,122,961	2,478,586
Other operating revenues	3,816,898	3,551,255	3,189,987
Total income	<u>33,740,666</u>	<u>31,522,631</u>	<u>29,439,104</u>
Interest expense	26,379,290	24,889,483	23,376,912
Other operating expenses:			
Consulting fees :DEM & DOH	2,176,339	2,122,961	2,478,586
General administration	1,014,728	964,113	919,229
Professional fees	231,488	173,400	168,276
Operating expenses	<u>29,801,845</u>	<u>28,149,957</u>	<u>26,943,003</u>
Operating income	3,938,821	3,372,674	2,496,101
Grant income - federal and state - non-operating	10,903,908	15,014,510	23,930,655
Increase in net assets	14,842,729	18,387,184	26,426,756
Net assets, beginning of year	<u>336,576,358</u>	<u>318,189,174</u>	<u>291,762,418</u>
Total net assets, end of year	<u><u>\$351,419,087</u></u>	<u><u>\$336,576,358</u></u>	<u><u>\$318,189,174</u></u>

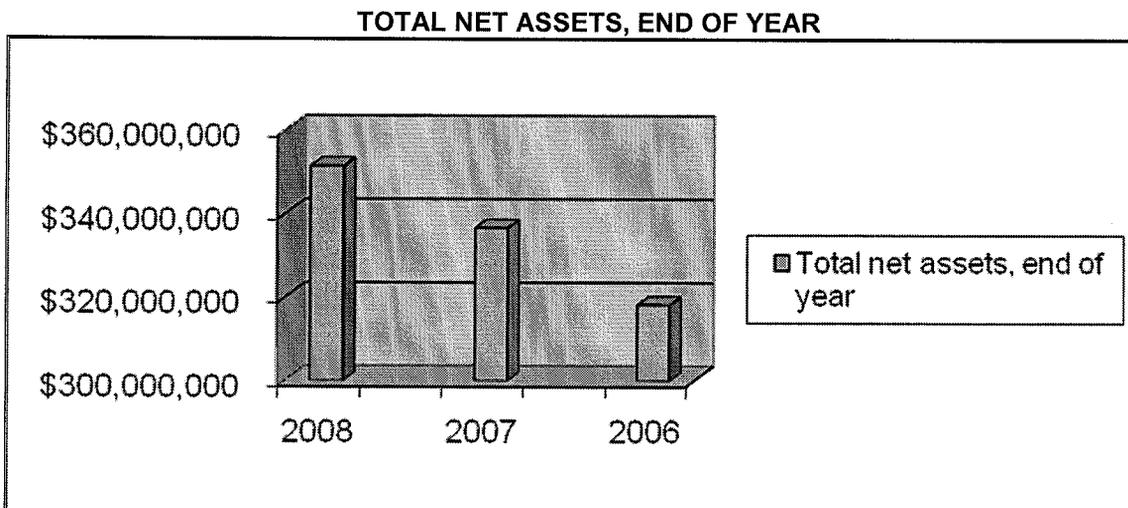
**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

As graphically portrayed below, the increase of 3.3% in interest income-loans is related to the growth in the Agency's portfolio.



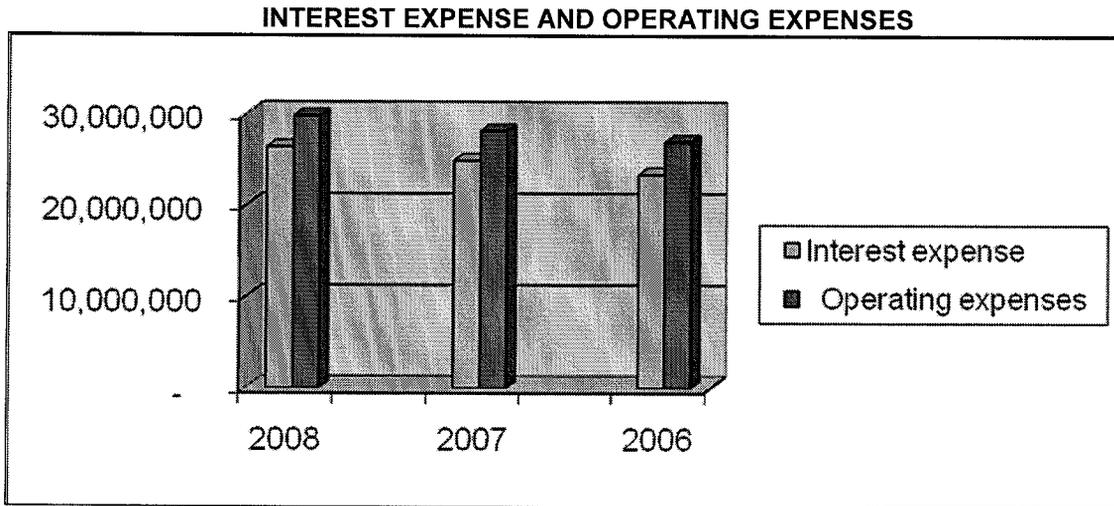
As graphically shown above and discussed earlier, investment income increased from \$10,973,270 at June 30, 2007 to \$12,376,471 at June 30, 2008 representing a modest 12.8% increase.

The increase in investment income combined with the decrease in grant income – federal and state resulted in a 4.1% decrease in total income. Total net assets at June 30, 2008 was \$351,419,087 which was an increase of 4.4% over fiscal year June 30, 2007.



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

An increase of 6.0% in interest expense is related to the Agency closing one bond issue in the Clean Water State Revolving Fund, one bond issue in the Drinking Water State Revolving Fund and a Conduit Issue. 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, 2008, 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.

At June 30, 2008, the Agency had \$631,340,000 of bond indebtedness, an increase of 9.4% from the \$576,950,000 outstanding at June 30, 2007. 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.

All aspects of the Agency's function are monitored on a monthly basis, including GIC providers, their ratings and inception and maturity dates. The Agency continues to remain pro-active in that it requires, as an agreed upon procedure, quarterly management reports to be prepared by an outside audit firm.

FACTORS AFFECTING FUTURE OPERATIONS:

1. After the close of the fiscal year the federal government has temporarily increased the standard deposit insurance amount from \$100,000 to \$250,000. The effective date of the interim rule is October 10, 2008 and on January 1, 2010, the standard coverage limit is scheduled to return to \$100,000 for most deposit categories. This change will reduce the Agency's exposure on its uninsured deposits.
2. The Agency's Institutional money market accounts - government portfolio, consisting of \$47,281,010 on June 30, 2008 is covered under the U.S. Treasury Temporary Guarantee Program for Money Market Funds. Under the program, coverage is provided to shareholders for amounts that they held in participating money market funds as of the close of business on September 19, 2008. A shareholder's holdings in a participating money market fund as of September 19, 2008, represents the maximum amount of assets eligible for reimbursement under the program. The program is designed to address temporary dislocations in the credit markets. It will exist for an initial three month term and is scheduled to terminate on December 18, 2008, unless extended by the Secretary of the Treasury.
3. Due to the downgrade of AIG, the Agency has requested and received a return of all funds invested in AIG. The Agency had solid document protection written into its investment contracts [See notes to the financial statements 1(e)] that in the event of a downgrade the provider had to:
 1. Notify the Agency of the downgrade.
 2. Allow the Agency three options:
 - A. Return of all invested funds and accrued interest.
 - B. Collateralization of all invested funds.
 - C. Assign funds to a AAA provider.

The Agency selected Option A.

4. Guaranteed investment contract provider ratings are shown on page 24 and are stated as of June 30, 2008. Ratings during these uncertain times are subject to change. Readers are encouraged to go to Moody's and S&P's websites to get the most recent ratings.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents and investments:		
Unrestricted:		
Cash and cash equivalents	\$ 53,843,096	\$ 51,413,282
Investments	77,329,280	46,525,460
Total unrestricted cash, cash equivalents and investments	<u>131,172,376</u>	<u>97,938,742</u>
Restricted:		
Cash and cash equivalents	19,281	19,496
Investments	166,963,144	158,223,505
Total restricted cash, cash equivalents and investments	<u>166,982,425</u>	<u>158,243,001</u>
Loans receivable, net	38,606,760	33,375,459
Accrued interest receivable:		
Loans	4,991,762	4,772,027
Investments	2,730,929	2,888,647
Accounts receivable – service fees	1,068,513	1,014,785
Prepaid expenses and other receivables	153,481	126,560
Total current assets	<u>345,706,246</u>	<u>298,359,221</u>
Noncurrent assets:		
Loans receivable, net	657,927,973	634,656,362
Bond issuance costs, net of accumulated amortization	6,516,985	5,900,338
Total noncurrent assets	<u>664,444,958</u>	<u>640,556,700</u>
Capital assets:		
Property and equipment, net of accumulated depreciation	46,062	34,694
TOTAL ASSETS	<u>1,010,197,266</u>	<u>938,950,615</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bonds payable	28,735,000	25,700,000
Accrued interest payable	7,198,662	6,850,610
Accounts payable and accrued expenses	499,562	603,162
Total current liabilities	<u>36,433,224</u>	<u>33,153,772</u>
Noncurrent liabilities:		
Bonds payable, net of current portion	620,147,379	567,008,401
Accrued arbitrage rebate	2,197,576	2,212,084
Total noncurrent liabilities	<u>622,344,955</u>	<u>569,220,485</u>
TOTAL LIABILITIES	<u>658,778,179</u>	<u>602,374,257</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	46,062	34,694
Restricted	329,259,368	318,427,286
Unrestricted	22,113,657	18,114,378
TOTAL NET ASSETS	<u>\$351,419,087</u>	<u>\$336,576,358</u>

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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Investment income.....	\$ 12,376,471	\$ 10,973,270
Interest income - loans.....	15,370,958	14,875,145
Grant income - operating.....	2,176,339	2,122,961
Service fees.....	3,144,471	2,934,325
Direct loan fees and other.....	162,593	145,978
Loan origination fees.....	509,834	470,952
Total operating revenues	<u>33,740,666</u>	<u>31,522,631</u>
Operating expenses:		
Interest expense.....	26,379,290	24,889,483
Consulting fees - D.E.M and D.O.H.....	2,176,339	2,122,961
Employee expense.....	501,463	483,680
Finance expense.....	1,243	1,650
Insurance expense.....	15,579	22,291
Legal fees.....	54,033	32,900
Office expense.....	82,663	82,190
Accounting and auditing.....	24,663	19,167
Depreciation and amortization expense.....	389,810	350,756
Trustee/bank fees.....	121,912	108,833
Promotional expenses.....	6,172	7,224
Financial advisor fees.....	30,880	12,500
Dues and subscriptions.....	6,623	6,861
Seminars.....	1,470	1,385
Business and travel expense.....	6,505	4,028
Miscellaneous expense.....	3,200	4,048
Total operating expenses	<u>29,801,845</u>	<u>28,149,957</u>
Operating income.....	3,938,821	3,372,674
Nonoperating revenue:		
Grant income - non-operating.....	<u>10,903,908</u>	<u>15,014,510</u>
Changes in net assets.....	14,842,729	18,387,184
Net assets, beginning of the year	<u>336,576,358</u>	<u>318,189,174</u>
Net assets, end of the year	<u>\$351,419,087</u>	<u>\$336,576,358</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<i>Cash flows from operating activities:</i>		
Cash receipts for operating grants.....	\$ 2,176,339	\$ 2,122,961
Cash receipts for loan origination fees.....	989,412	760,905
Cash receipts for service fees.....	3,090,743	2,840,076
Cash receipts for direct loan fees and other	162,593	145,978
Cash payments to suppliers.....	(2,661,803)	(2,338,116)
Cash payments to employees.....	<u>(501,463)</u>	<u>(483,680)</u>
<i>Net cash provided by operating activities</i>	<u>3,255,821</u>	<u>3,048,124</u>
<i>Cash flows from capital and related financing activities:</i>		
Purchases of property and equipment.....	<u>(22,148)</u>	<u>(2,278)</u>
<i>Cash flows from non-capital financing activities:</i>		
Proceeds from bond issuance	82,718,908	66,070,073
Repayment of bond principal	(25,700,000)	(21,830,000)
Non-operating grants received.....	10,903,908	15,014,510
Interest paid on revenue bonds.....	(26,876,168)	(25,093,017)
Bond issuance costs capitalized	<u>(995,677)</u>	<u>(859,983)</u>
<i>Net cash provided by non-capital financing activities</i>	<u>40,050,971</u>	<u>33,301,583</u>
<i>Cash flows from investing activities:</i>		
Cash disbursed in lending activities, net.....	(28,982,491)	(55,222,635)
Investment income.....	12,519,682	12,197,583
Interest income – loan program	15,151,223	14,560,586
Purchase of investments.....	(97,601,971)	(76,268,176)
Proceeds from sale of investments.....	<u>58,058,512</u>	<u>64,407,041</u>
<i>Net cash used for investing activities</i>	<u>(40,855,045)</u>	<u>(40,325,601)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	2,429,599	(3,978,172)
<i>Cash and cash equivalents, beginning of the year</i>	<u>51,432,778</u>	<u>55,410,950</u>
<i>Cash and cash equivalents, end of the year</i>	<u>\$ 53,862,377</u>	<u>\$ 51,432,778</u>
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Operating income.....	\$ 3,938,821	\$ 3,372,674
Adjustments:		
Investment income.....	(12,361,964)	(12,455,619)
Interest income - loans.....	(15,370,958)	(14,875,145)
Interest expense.....	26,379,290	24,889,483
Depreciation/amortization	389,810	350,756
(Increase) decrease in prepaid expenses.....	(26,921)	4,034
Increase (decrease) in accounts payable and accrued expenses.....	(103,600)	83,888
(Decrease) increase in accrued arbitrage rebate.....	(14,508)	1,482,349
Increase in accounts receivable – service fees	(53,728)	(94,249)
Increase in deferred loan origination fees.....	<u>479,579</u>	<u>289,953</u>
<i>Net cash provided by operating activities</i>	<u>\$ 3,255,821</u>	<u>\$ 3,048,124</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008 AND 2007**

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, 2008 and 2007 consisted of Treasury obligations (FNMA), 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.

The Agency monitors its investment portfolio on a monthly basis, including guaranteed investment contract providers, their credit ratings, and maturity dates.

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, 2008 AND 2007**

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 2008 and 2007 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 cash deposits at financial institutions, institutional money market accounts, and collateralized 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 \$5,490,102 and \$19,785,216 at June 30, 2008 and 2007, 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 2008 and 2007 totaled \$10,780 and \$10,545, 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, 2008 AND 2007**

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 \$5,873,348 and \$5,393,769 at June 30, 2008 and 2007, 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 2008 and 2007 totaled \$379,030 and \$340,211, 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 \$953,724 and \$840,047 for fiscal years 2008 and 2007, 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, 2008 and 2007.

(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, 2008 AND 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Recently Issued Accounting Standards

The Agency implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions, for the year ended June 30, 2008. 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, 2007:

- √ GASB Statement No. 48 – Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.
- √ GASB Statement No. 50 – Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27.

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. 51 – Accounting and Financial Reporting for Intangible Assets, effective for the Agency's fiscal year ending June 30, 2010.

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

(r) Income Tax

The Agency is exempt from federal and state income taxes.

(s) Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the classifications used in the 2008 financial statements.

2. BONDS PAYABLE

Since its inception, the Agency has issued revenue bonds to local governments to finance water pollution abatement projects and as of March 4, 2004, safe drinking water 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, 2008 AND 2007**

2. BONDS PAYABLE (Continued)

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

	<u>2008</u>	<u>2007</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	\$ 520,000	\$ 700,000
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	15,810,000	17,590,000
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	5,090,000	5,665,000
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	2,940,000	3,270,000
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	22,160,000	24,375,000
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	16,615,000	17,965,000
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	18,550,000	19,755,000
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	23,270,000	24,505,000
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	60,600,000	63,950,000
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	13,070,000	13,820,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. BONDS PAYABLE (Continued)

	<u>2008</u>	<u>2007</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	58,620,000	61,865,000
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	62,660,000	65,090,000
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	46,010,000	48,085,000
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	56,625,000	57,795,000
2007 Series A Bonds, dated December 12, 2007 with serial bonds of \$39,740,000 at rates varying from 4.00% to 5.00% due annually from October 1, 2009 to October 1, 2028	39,740,000	0
2008 Wastewater Revenue Bonds dated April 30, 2008, with serial bonds of \$4,000,000 at 4.00% due annually from March 1, 2009 to March 1, 2028	4,000,000	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	35,935,000	37,095,000
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	41,240,000	42,205,000
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	5,135,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. BONDS PAYABLE (Continued)

	<u>2008</u>	<u>2007</u>
Safe Drinking Water Revenue Bonds (Continued):		
2008 Series A Bonds, dated June 5, 2008, with serial bonds of \$36,350,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2010 to October 1, 2029	36,350,000	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
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	10,915,000	12,600,000
Subtotal.....	631,340,000	576,950,000
Less: amount deferred on refunding.....	(778,234)	(887,028)
Add: bond premium (discount) net of amortization	18,320,613	16,645,429
Total bonds payable	<u>\$648,882,379</u>	<u>\$592,708,401</u>

Long-term liability activity for the year ended June 30, 2008 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	\$576,950,000	\$80,090,000	\$25,700,000	\$631,340,000	\$28,735,000
Plus: bond premium (discount), net of amortization.....	16,645,429	2,628,908	953,724	18,320,613	
Less: amount deferred on refunding	(887,028)	0	(108,794)	(778,234)	
Total long-term debt	<u>\$592,708,401</u>	<u>\$82,718,908</u>	<u>\$26,544,930</u>	<u>\$648,882,379</u>	<u>\$28,735,000</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 28,735,000	\$ 28,552,293	\$ 57,287,293
2010.....	30,000,000	27,694,433	57,694,433
2011.....	31,360,000	26,471,404	57,831,404
2012.....	32,750,000	25,154,515	57,904,515
2013.....	33,025,000	23,733,027	56,758,027
2014 - 2018.....	165,880,000	96,160,155	262,040,155
2019 - 2023.....	191,925,000	53,103,947	245,028,947
2024 - 2028.....	89,015,000	16,451,023	105,466,023
2029 - 2033.....	19,665,000	4,359,075	24,024,075
2034 - 2036.....	8,985,000	729,900	9,714,900
Total.....	<u>\$631,340,000</u>	<u>\$302,409,772</u>	<u>\$933,749,772</u>

3. LOANS RECEIVABLE

At June 30, 2008 and 2007, the Agency had loans receivable of \$702,408,081 and \$673,425,590 representing 144 and 117 outstanding loans, respectively. At June 30, 2008 and 2007, the current portion of loans receivable (net of loan origination fees) totaled \$38,606,760 and \$33,375,459, respectively. In addition, at June 30, 2008 and 2007, the Agency had outstanding unused commitments totaling approximately \$103,695,615 and \$64,723,033 for the disbursement of future loans. For financial reporting purposes on the statement of net assets, total 2008 outstanding loans receivable of \$702,408,081 have been reduced by unamortized loan origination fees totaling \$5,873,348. For 2007, total outstanding loans receivable of \$673,425,590 have been reduced by unamortized loan origination fees totaling \$5,393,769.

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, 2008, the Agency had outstanding loans receivable to two borrowers representing 55% of the Agency's total loan receivable balance. At June 30, 2007, the Agency had outstanding loans receivable to two borrowers representing 57% of the Agency's total loan receivable balance.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008, the carrying amount of the Agency's cash deposits was \$1,091,165. The bank balance was \$1,225,000 as of the same period, of which \$100,000 was covered by the Federal Depository Insurance Corporation (the "FDIC"), and \$1,125,000 was uninsured.

At June 30, 2007, the carrying amount of the Agency's cash deposits was \$146,395. The bank balance was \$275,000 as of the same period, of which \$100,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC"), and \$175,000 was uninsured.

(b) Cash and cash equivalents consisted of the following a June 30:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Cash on hand.....	\$ 100	\$ 100
Deposits with financial institutions.....	1,091,165	146,395
Institutional money market accounts – government portfolio.....	47,281,010	31,501,067
Collateralized repurchase agreements – sweep account	<u>5,490,102</u>	<u>19,785,216</u>
Total cash and cash equivalents.....	<u>\$53,862,377</u>	<u>\$51,432,778</u>

The institutional money market funds – government portfolio totaling \$47,281,010 at June 30, 2008 had credit ratings of AAAm/Aaa by Standard and Poor's and Moody's respectively, as of September 16, 2008.

Interest Rate Risk – It is the policy of the Agency to limit the length of its investment maturities in order to manage the exposure to fair value losses arising from increasing interest rates. In addition, the Agency utilizes guaranteed investment contracts which provide fixed interest rates over the term of the contract.

Credit Risk – The Agency manages its exposure to credit risk by investing in obligations that are issued by the U.S. Government or explicitly guaranteed by the U.S. government. In addition, the Agency utilizes collateralized repurchase agreements, and guaranteed investment contracts which are either collateralized or require collateral to be provided or other safeguards in the event that the GIC providers credit rating is downgraded.

Concentration of Credit Risk – To limit the risk of institutional failure, Agency deposits and investments are placed with multiple institutions. As disclosed in Note 1 to the financial statements, GIC providers must meet minimum ratings from Standard and Poor's, Moody's and Fitch.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a financial institution failure the Agency's investments may not be returned. The Agency has a policy which requires the monthly monitoring of custodial credit risk, including the review of institutional credit ratings.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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

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

The Agency's investments consisted of the following at June 30, 2008:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2008</u>
U.S. Agency Securities:				
FNMA	<u>\$13,821,000</u>	9/15/2012	4.375%	N/A
Collateralized Repurchase Agreements:				
Societe Generale	792,000	10/1/2009	6.480%	Aa2/AA-
Societe Generale	2,091,500	10/1/2013	7.200%	Aa2/AA-
Bayerische LB.....	1,967,557	12/31/2016	5.600%	Aaa/AAA
Westdeutsche LB	<u>9,301,263</u>	10/1/2019	6.280%	Aaa/AAA
Subtotal.....	<u>\$14,152,320</u>			
Guaranteed Investment Contracts:				
MBIA Corp**	\$ 36,354,266	12/01/2010	3.095%	A2/AA
MBIA Corp**	2,841,446	10/15/2015	5.750%	A2/AA
MBIA Corp**	2,260,396	10/15/2015	7.480%	A2/AA
MBIA Corp**	8,849,367	10/01/2020	5.470%	A2/AA
Bayern LB.....	13,261,710	10/01/2019	5.330%	Aaa/AAA
AIG Matched Funding**.....	11,861,005	10/01/2022	4.750%	Aa3/AA-
AIG Matched Funding.....	2,636,853	10/01/2023	3.570%	Aa3/AA-
AIG Matched Funding.....	9,223,219	10/01/2028	4.812%	Aa3/AA-
AIG Matched Funding.....	16,292,844	9/25/2024	4.184%	Aa3/AA-
FSA Capital Management.....	11,008,985	9/26/2024	4.710%	Aaa/AAA
FSA Capital Management.....	14,308,968	9/25/2025	4.670%	Aaa/AAA
FSA Capital Management.....	8,655,165	9/27/2027	4.793%	Aaa/AAA
FSA Capital Management.....	1,000,000	9/25/2028	5.060%	Aaa/AAA
Transamerica.....	10,481,659	9/25/2026	4.770%	Aa3/AA
Transamerica.....	35,327,356	7/01/2009	4.466%	Aa3/AA
Wells Fargo	4,658,326	9/01/2008	5.071%	Aaa/AAA
Citigroup Financial Products.....	14,135,439	10/01/2027	4.805%	Aa3/AA-
GE Capital Corp.....	6,000,000	9/25/2029	4.498%	Aaa/AAA
AMBAC**	3,143,000	10/01/2015	6.270%	Aa3/AA
AMBAC**	<u>4,019,100</u>	10/01/2012	5.390%	Aa3/AA
Subtotal.....	<u>\$216,319,104</u>			
Total Investments	<u>\$244,292,424</u>			

** Collateralized guaranteed investment contracts totaled \$69,328,580 at June 30, 2008.

Note – the credit ratings provided for the guaranteed investment contracts relate to the GIC Providers and not the individual investment contracts.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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

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

The Agency's investments consisted of the following at June 30, 2007:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
U.S. Agency Securities:			
FNMA.....	<u>\$13,034,784</u>	9/15/2012	4.375%
Collateralized Repurchase Agreements:			
Societe Generale	1,324,700	10/1/2009	6.480%
Societe Generale	2,091,500	10/1/2013	7.200%
Bayerische LB.....	2,188,704	12/31/2016	5.600%
Westdeutsche LB.....	<u>9,988,769</u>	10/1/2019	6.280%
Subtotal.....	<u>\$15,593,673</u>		
Guaranteed Investment Contracts:			
MBIA Corp.....	\$ 3,418,763	10/15/2015	5.750%
MBIA Corp.....	2,260,396	10/15/2015	7.480%
MBIA Corp.....	9,403,722	10/01/2020	5.470%
Bayern LB	14,568,514	10/01/2019	5.330%
AIG Matched Funding	12,474,652	10/01/2022	4.750%
AIG Matched Funding	2,788,164	10/01/2023	3.570%
AIG Matched Funding	16,818,785	9/25/2024	4.184%
FSA Capital Management	11,618,404	9/26/2024	4.710%
FSA Capital Management	14,861,817	9/25/2025	4.670%
FSA Capital Management	8,850,822	9/27/2027	4.793%
FSA Capital Management	1,000,000	9/25/2028	5.060%
Transamerica	10,985,638	9/25/2026	4.770%
Wells Fargo	27,190,687	9/01/2008	5.071%
Citigroup Financial Products	14,439,300	10/01/2027	4.805%
AMBAC.....	3,143,000	10/01/2015	6.270%
AMBAC.....	4,813,100	10/01/2012	5.390%
XL Asset Funding.....	7,752,527	11/01/2007	4.440%
XL Asset Funding.....	<u>9,732,217</u>	2/01/2008	3.674%
Subtotal.....	<u>\$176,120,508</u>		
Total Investments	<u>\$204,748,965</u>		

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
1997:		
Federal award.....	\$ 4,127,100	\$ 0
State match.....	825,420	0
2006:		
Federal award.....	5,839,300	72,388
State match.....	1,167,860	0
2007:		
Federal award.....	7,159,200	4,332,149
State match.....	1,431,840	0
2008:		
Federal award (applied for August 2008).....	4,515,300	4,515,300
State match (applied for August 2008).....	903,060	903,060

(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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

5. CAPITALIZATION GRANTS (Continued)

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

The following table shows the DWSRF federal awards and remaining balances as of June 30, 2008:

<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
2002:		
Federal award	8,052,500	79,765
State match	1,610,500	0
2003:		
Federal award	8,004,100	1,408,334
State match	1,600,820	0
2004:		
Federal award	8,303,100	1,113,424
State match	1,660,620	0
2005:		
Federal award	8,285,500	6,988,187
State match	1,657,100	13,253
2006:		
Federal award	8,229,300	8,229,300
State match	1,645,860	1,645,860
2007:		
Federal award (applied for August 2008).....	8,229,000	8,229,000
State match (applied for August 2008)	1,645,800	1,645,800

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008 and 2007.

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 \$37,957 and \$36,196 for the years ended June 30, 2008 and 2007, 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 \$15,500 (\$20,500 if age 50 or older) for 2008. 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, 2008 and 2007 were \$25,047 and \$27,670, 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 2008, the Agency incurred rent expense of \$49,744. 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 2008, the Agency renewed its existing lease agreement for a period of 60 months commencing May 15, 2008 and expiring May 14, 2013.

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2009.....	\$ 57,040
2010.....	57,040
2011.....	57,396
2012.....	59,891
2013.....	<u>52,405</u>
Total	<u>\$283,772</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

8. PROPERTY AND EQUIPMENT

The summary of changes in property and equipment at June 30, 2008 are summarized below:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2008</u>
Cost:				
Computers.....	\$ 56,934	\$ 4,430	\$1,676	\$ 59,688
Furniture and fixtures	20,406	1,294		21,700
Equipment.....	17,702	16,424		34,126
Leasehold Improvements.....	29,701			29,701
Total cost	<u>124,743</u>	<u>22,148</u>	<u>1,676</u>	<u>145,215</u>
Accumulated depreciation:				
Computers.....	52,873	3,943	1,676	55,140
Furniture and fixtures	16,174	2,951		19,125
Equipment.....	15,804	2,401		18,205
Leasehold Improvements.....	5,198	1,485		6,683
Total accumulated depreciation	<u>90,049</u>	<u>10,780</u>	<u>1,676</u>	<u>99,153</u>
 Net capital assets	 <u>\$ 34,694</u>	 <u>\$11,368</u>	 <u>\$ 0</u>	 <u>\$ 46,062</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, 2008 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, 2008, 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, 2008 AND 2007**

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, 2008 and 2007.

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