

**RHODE ISLAND CLEAN WATER
FINANCE AGENCY**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2010 and 2009**

RHODE ISLAND CLEAN WATER FINANCE AGENCY

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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, 2010 and 2009, 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 opinions.

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, 2010 and 2009, 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 October 7, 2010, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements as a whole. 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. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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.

October 7, 2010

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, 2010. 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, 2010 were \$1,091,200,062, which is an increase of \$99,646,155 or 10% over June 30, 2009.
- The Agency's capital assets at June 30, 2010 were \$37,497, which is an increase of \$967 or 2% above June 30, 2009.
- The Agency's operating revenues for the fiscal year ended June 30, 2010 were \$33,726,650, which is an increase of \$1,220,251 or 4% above the fiscal year ended June 30, 2009.
- The Agency's operating expenses for the fiscal year ended June 30, 2010 were \$32,033,709 which is an increase of \$173,961 or 0.5% over the fiscal year ended June 30, 2009.
- The Agency's total net assets for the fiscal year ended June 30, 2010 were \$384,299,980, which is an increase of \$24,048,640 or 7% over the fiscal year ended June 30, 2009.

INVESTMENT HIGHLIGHTS:

- The Rhode Island Clean Water Finance Agency seeks investments that offer strong security to bondholders. Permitted investments are reviewed in the context of the current market to provide needed cash flows while meeting the Agency's rating criteria. Downgrade and collateral provisions are a key criteria for each investment. Agency management is proactive in regularly monitoring investments and investment agreement providers and has taken swift action to address investment agreement provider downgrades.
- Over the past years, the rating downgrades of firms that have provided Guaranteed Investment Contracts (GICs) have presented significant challenges for issuers that historically utilized GICs in their investment portfolios. The Agency requests a return of its GIC investment upon rating trigger whenever documents permit or by provider agreement. The first priority of the Agency's reinvestment strategy is preservation of principal or safety, followed by liquidity, and finally yield. In most cases, the current investment alternatives do not match the yields on the liquidated investments and in some cases, a cash contribution may be required to match prior cash flows at available investment yields.

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

INVESTMENT HIGHLIGHTS (Continued):

- Due to the uncertainty in the financial markets, the Agency has decided to put Federal Capitalization Grants into federal direct loans instead of funding a List Fund. This helps the Agency because it reduces the amount of bonds the Agency would have to issue, thus reducing Agency's Debt and provides a better rate of return than the Agency could have received if it invested the funds in a List investment, therefore increasing Agency's revenue.

2010 FISCAL SUMMARY:

Pursuant to American Recovery and Reinvestment Act of 2009 (ARRA) and the ARRA Capitalization Grant Agreement, the Agency was awarded by the EPA a total of \$26,314,600 and \$19,500,000 in ARRA grant funds that have been directed to fund water pollution abatement projects under the Water Pollution Control Revolving Fund and projects under the Safe Drinking Water Revolving Fund, respectively. Grant funds awarded under ARRA do not require State Matching Funds.

At least fifty percent (50%) of the ARRA Capitalization Grant must be used to provide additional subsidations in the form of principal forgiveness, negative interest loans, grants or combination thereof. The Agency satisfied this requirement by providing Principal Forgiveness to the Rhode Island borrowers.

In other activity, the Agency has assumed \$81,635,000 in new bond indebtedness along with a Water Pollution Control Subordinated Refunding totaling \$77,140,000. The above activity has created additional assets by issuing new loans to Rhode Island borrowers totaling \$181,663,933.

- October 6, 2009, the Agency issued a \$41,555,000 Series 2009A Bond Issue. This bond issue was part of a total loan pool of \$92,149,159 made to eleven borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Bristol	\$ 3,600,000
Coventry	2,896,000
East Greenwich	2,900,000
East Providence	10,000,000
Johnston	2,500,000
NBC	55,000,000
NBC (2)	2,000,000
Newport	6,595,532
North Smithfield	4,750,000
Smithfield	560,000
Warwick	1,347,627
	<u>\$92,149,159</u>

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

2010 FISCAL SUMMARY (Continued):

- November 19, 2009, the Agency issued a \$9,935,000 Series 2009A Bond Issue. This bond issue was part of a total loan pool of \$43,057,774 made to fourteen borrowers in the Drinking Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

East Smithfield	\$ 400,000
Kingston Water District	520,000
Lincoln Water Comm.	1,500,000
Lincoln Water Comm.(2)	362,568
Pascoag	179,000
Portsmouth WFD	400,000
Portsmouth WFD (2)	100,000
PWSB	13,250,000
Cumberland	5,750,000
East Providence	6,000,000
East Providence (2)	561,206
Newport	3,300,000
North Kingstown	4,800,000
Pawtucket	<u>5,935,000</u>
	<u>\$43,057,774</u>

- May 6, 2010, the Agency issued a \$77,140,000 Series 2010A Bond Refunding Issue. This refunding bond issue refunded eight selected series in the Clean Water State Revolving Fund totaling \$78,670,000. The following is a list of refunded series and amount:

Series 1995 (partial)	\$ 415,000
Series 1999A (partial)	4,990,000
Series 1999B (all)	7,440,000
Series 1999C (partial)	4,985,000
Series 2000A (partial)	7,430,000
Series 2002A (partial)	7,505,000
Series 2002B (partial)	25,260,000
Series 2003B (partial)	<u>20,645,000</u>
	<u>\$78,670,000</u>

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

2010 FISCAL SUMMARY (Continued):

- June 24, 2010, the Agency issued a \$30,145,000 Series 2010B Bond Issue. This bond issue was part of a total loan pool of \$46,457,000 made to seven borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Bristol	\$ 3,970,000
Burrillville	2,160,000
Cranston	1,000,000
East Greenwich	3,000,000
East Providence	7,000,000
NBC	20,000,000
Newport	<u>9,327,000</u>
	<u>\$46,457,000</u>

- August 17, 2009, the Agency issued CSSLP loan to the Town of Tiverton in the amount of \$300,000.
- October 20, 2009, the Agency issued a FPLP loan to the Town of Portsmouth in the amount of \$150,000
- October 27, 2009, the Agency refinanced an interim loan to the City of Newport in the amount of \$500,000.
- October 27, 2009, the Agency refinanced and issued an interim loan to the City of Newport in the amount of \$3,537,000.
- November 2, 2009, the Agency issued a STILF loan to the Town of North Smithfield in the amount of \$150,000.
- November 4, 2009, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$100,000.
- December 7, 2009, the Agency issued an interim loan to the City of Pawtucket (DWSRF) in the amount of \$1,700,000.
- May 24, 2010, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.
- June 16, 2010, the Agency refinanced a Bond Anticipation Notes via Bank of America Purchase to the City of Newport in the amount of \$15,000,000.

**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.

FINANCIAL ANALYSIS:

NET ASSETS

The Agency's total net assets at June 30, 2010 was \$384,299,980, which is an increase of \$24,048,640 or 6.67% over June 30, 2009. Components of the Agency's statement of net assets were as follows at June 30:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Other assets	\$1,091,162,565	\$991,517,377	\$1,010,151,204
Capital assets	37,497	36,530	46,062
Total assets	<u>1,091,200,062</u>	<u>991,553,907</u>	<u>1,010,197,266</u>
Current liabilities	58,959,977	37,499,344	36,433,224
Non-current liabilities	647,940,105	593,803,223	622,344,955
Total liabilities	<u>706,900,082</u>	<u>631,302,567</u>	<u>658,778,179</u>
Net assets			
Invested in capital assets	37,497	36,530	46,062
Restricted for debt service	358,370,130	336,939,473	329,259,368
Unrestricted	25,892,353	23,275,337	22,113,657
Total net assets	<u>\$ 384,299,980</u>	<u>\$360,251,340</u>	<u>\$ 351,419,087</u>

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

FINANCIAL ANALYSIS:

NET ASSETS

The increases noted in the preceding table of the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2010 increase results from the Agency closing a \$41.55 million Clean Water bond issue in October, a \$9.93 million Drinking Water bond issue in November, and a \$30.14 million Clean Water bond issue in June. Total assets increased from \$991,553,907 at June 30, 2009 to \$1,091,200,062 at June 30, 2010. Current liabilities grew from \$37,499,344 at June 30, 2009 to \$58,959,977 or 57% at June 30, 2010. The growth over the past year also relates to non-current liabilities totaling \$647,940,105 which is an increase of \$54,136,882 or 9% over June 30, 2009. 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.

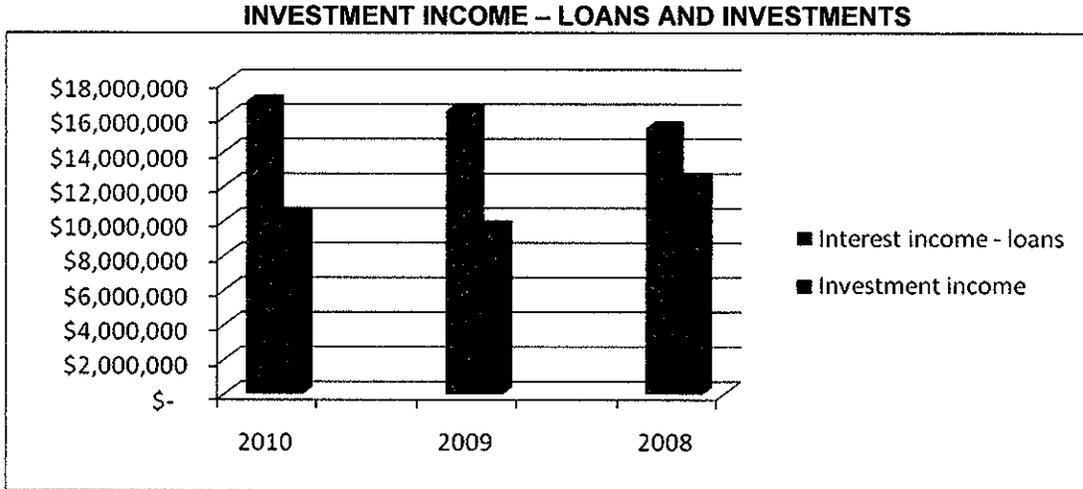
CHANGES IN NET ASSETS

The Agency's change in net assets for the fiscal year ended June 30, 2010 was \$24,048,640 or an increase of 7%. The increase results from the following: an increase in interest income (due to new loans), investment income, grant income (due to ARRA Capitalization Grant) and unrealized gains on certain investments at June 30, 2010.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income – loans	\$ 16,880,564	\$ 16,364,538	\$ 15,370,958
Investment income	10,391,422	9,630,299	12,376,471
Grant income - DEM & DOH	2,247,603	2,428,174	2,176,339
Grant income - federal and state	22,355,699	8,185,602	10,903,908
Other operating revenues	<u>4,207,061</u>	<u>4,083,388</u>	<u>3,816,898</u>
Total income	<u>56,082,349</u>	<u>40,692,001</u>	<u>44,644,574</u>
Interest expense	28,152,930	27,650,674	26,379,290
Other operating expenses:			
Consulting fees: DEM & DOH	2,247,603	2,428,174	2,176,339
General administration	1,148,242	1,212,289	1,014,728
Professional fees	<u>484,934</u>	<u>568,611</u>	<u>231,488</u>
Operating expenses	<u>32,033,709</u>	<u>31,859,748</u>	<u>29,801,845</u>
Increase in net assets	24,048,640	8,832,253	14,842,729
Net assets, beginning of year	<u>360,251,340</u>	<u>351,419,087</u>	<u>336,576,358</u>
Total net assets, end of year	<u><u>\$384,299,980</u></u>	<u><u>\$360,251,340</u></u>	<u><u>\$351,419,087</u></u>

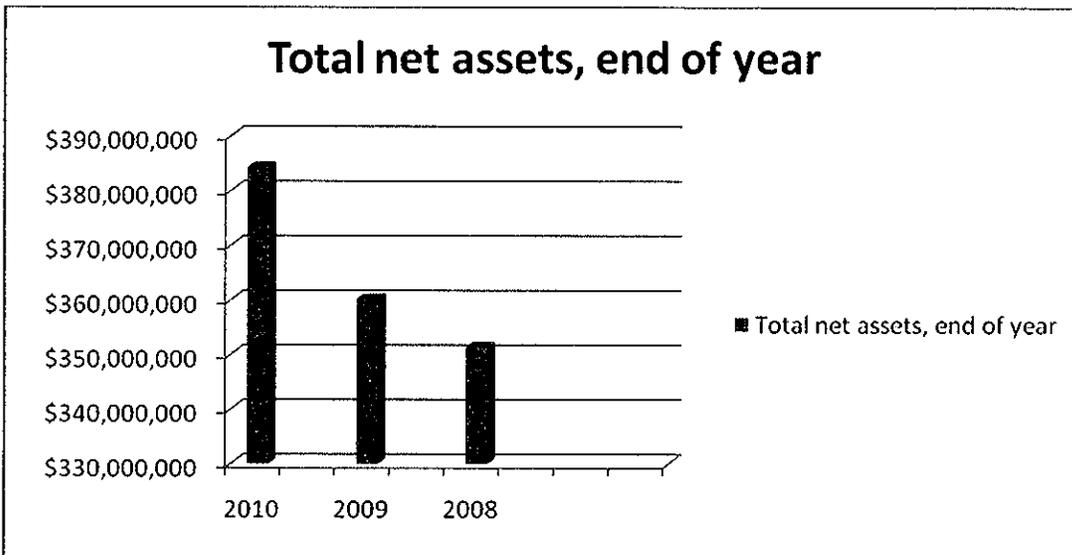
**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

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



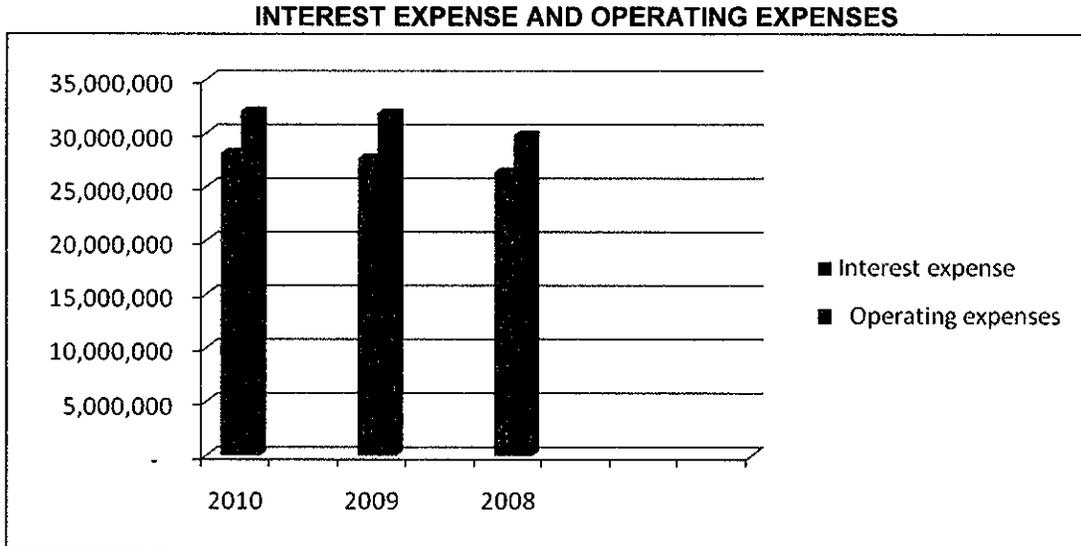
As graphically shown above and discussed earlier, investment income increased to \$10,391,422 at June 30, 2010 from \$9,630,299 at June 30, 2009 representing an 8% increase.

The increase in investment income combined with the increase in grant income – federal and state resulted in a 38% increase in total income. Total net assets at June 30, 2010 were \$384,299,980 which was an increase of 7% over fiscal year June 30, 2009.



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

An increase of 2.0% in interest expense is related to the Agency's bond issuance in the Clean Water State Revolving Fund, bond issuance in the Drinking Water State Revolving Fund and Conduit Issuance. 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, 2010, 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) and a Sewer Tie In Loan Fund (STILF) 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.

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

At June 30, 2010, the Agency had \$652,710,000 of bond indebtedness, an increase of 8% from the \$602,605,000 outstanding at June 30, 2009. Detailed information related to its Agency's debt is presented in Note 2 to the financial statements.

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	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. During fiscal year 2010 the federal government continued the standard deposit insurance of \$250,000. This change will reduce the Agency's exposure on its uninsured deposits.
2. Guaranteed investment contract provider ratings are shown on page 27 and are stated as of June 30, 2010. 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.

REQUEST FOR INFORMATION:

The financial report is designed to provide a general overview of the Agency's financial activity for fiscal year 2010. If you have questions about this report or need additional financial information, contact the Rhode Island Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, Rhode Island 02908, telephone number (401)453-4430 or email us at www.ricwfa.com.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF NET ASSETS
JUNE 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents and investments:		
Unrestricted:		
Cash and cash equivalents.....	\$ 158,608,802	\$ 72,969,786
Investments.....	0	11,868,197
Total unrestricted cash, cash equivalents and investments	<u>158,608,802</u>	<u>84,837,983</u>
Restricted:		
Cash and cash equivalents.....	9,446,173	11,571,849
Investments.....	155,843,646	155,092,252
Total restricted cash, cash equivalents and investments	<u>165,289,819</u>	<u>166,664,101</u>
Loans receivable, net.....	63,067,137	46,292,241
Accrued interest receivable:		
Loans.....	5,479,629	5,308,437
Investments.....	1,737,864	2,079,747
Accounts receivable – service fees.....	1,140,117	1,129,658
Prepaid expenses and other receivables.....	173,620	152,804
Due from State.....	2,403,060	0
Total current assets	<u>397,900,048</u>	<u>306,464,971</u>
Noncurrent assets:		
Loans receivable, net.....	686,299,673	678,948,789
Bond issuance costs, net of accumulated amortization.....	6,962,844	6,103,617
Total noncurrent assets	<u>693,262,517</u>	<u>685,052,406</u>
Capital assets:		
Property and equipment, net of accumulated depreciation.....	37,497	36,530
TOTAL ASSETS	<u>1,091,200,062</u>	<u>991,553,907</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bonds payable.....	32,030,000	30,000,000
Accrued interest payable.....	7,433,942	7,226,906
Accounts payable and accrued expenses.....	459,035	272,438
Bond anticipation notes.....	19,037,000	0
Total current liabilities	<u>58,959,977</u>	<u>37,499,344</u>
Noncurrent liabilities:		
Bonds payable, net of current portion.....	643,731,144	589,217,516
Accrued arbitrage rebate.....	4,208,961	4,585,707
Total noncurrent liabilities	<u>647,940,105</u>	<u>593,803,223</u>
TOTAL LIABILITIES	<u>706,900,082</u>	<u>631,302,567</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt.....	37,497	36,530
Restricted.....	358,370,130	336,939,473
Unrestricted.....	25,892,353	23,275,337
TOTAL NET ASSETS	<u>\$384,299,980</u>	<u>\$360,251,340</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, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Investment income	\$ 10,391,422	\$ 9,630,299
Interest income - loans	16,880,564	16,364,538
Grant income - operating	2,247,603	2,428,174
Service fees	3,386,460	3,331,656
Direct loan fees and other	233,244	209,852
Loan origination fees	587,357	541,880
Total operating revenues	<u>33,726,650</u>	<u>32,506,399</u>
Operating expenses:		
Interest expense	28,152,930	27,650,674
Consulting fees - D.E.M and D.O.H.	2,247,603	2,428,174
Employee expense	553,186	583,118
Finance expense	951	65,888
Insurance expense	15,936	15,945
Legal fees	197,882	221,565
Office expense	89,625	89,681
Accounting and auditing	38,558	23,738
Depreciation and amortization expense ..	448,195	422,900
Trustee/bank fees	153,970	157,635
Promotional expenses	11,500	15,127
Financial advisor fees	94,524	165,673
Dues and subscriptions	8,077	7,544
Seminars	3,235	2,650
Business and travel expense	13,082	6,617
Miscellaneous expense	4,455	2,819
Total operating expenses	<u>32,033,709</u>	<u>31,859,748</u>
Operating income	1,692,941	646,651
Nonoperating revenue:		
Grant income - non-operating	<u>22,355,699</u>	<u>8,185,602</u>
Changes in net assets	24,048,640	8,832,253
Net assets, beginning of the year	<u>360,251,340</u>	<u>351,419,087</u>
Net assets, end of the year	<u>\$384,299,980</u>	<u>\$360,251,340</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash receipts for operating grants.....	\$ 2,247,603	\$ 2,428,174
Cash receipts for loan origination fees.....	1,786,374	6,350
Cash receipts for service fees.....	3,376,001	3,270,511
Cash receipts for direct loan fees and other.....	233,244	209,852
Cash payments to suppliers.....	(2,713,617)	(3,429,503)
Cash payments to employees.....	(553,186)	(583,118)
Net cash provided by operating activities	<u>4,376,419</u>	<u>1,902,266</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment.....	<u>(9,166)</u>	<u>0</u>
Cash flows from non-capital financing activities:		
Proceeds from bond issuance, net of refunding.....	167,065,790	0
Repayment of bond principal.....	(108,670,000)	(28,735,000)
Non-operating grants received.....	19,952,639	8,185,602
Interest paid on revenue bonds.....	(29,001,979)	(28,552,293)
Bond issuance costs capitalized.....	(2,095,301)	0
Proceeds from bond anticipation notes.....	34,037,000	0
Repayment of bond anticipation notes.....	(15,000,000)	0
Net cash provided by (used for) non-capital financing activities	<u>66,288,149</u>	<u>(49,101,691)</u>
Cash flows from investing activities:		
Cash disbursed in lending activities, net.....	(25,324,796)	(28,170,767)
Investment income.....	10,356,559	12,669,612
Interest income – loan program.....	16,709,372	16,047,863
Purchase of investments.....	(7,295,727)	(60,784,221)
Proceeds from sale of investments.....	18,412,530	138,116,196
Net cash provided by investing activities	<u>12,857,938</u>	<u>77,878,683</u>
Net increase in cash and cash equivalents	83,513,340	30,679,258
Cash and cash equivalents, beginning of the year	<u>84,541,635</u>	<u>53,862,377</u>
Cash and cash equivalents, end of the year	<u>\$168,054,975</u>	<u>\$ 84,541,635</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income.....	\$ 1,692,941	\$ 646,651
Adjustments:		
Investment income.....	(10,014,676)	(12,018,430)
Interest income - loans.....	(16,880,564)	(16,364,538)
Interest expense.....	28,152,930	27,650,674
Depreciation/amortization.....	448,195	422,900
(Increase) decrease in prepaid expenses.....	(20,816)	677
Increase (decrease) in accounts payable and accrued expenses.....	186,597	(227,124)
(Decrease) increase in accrued arbitrage rebate.....	(376,746)	2,388,131
Increase in accounts receivable – service fees.....	(10,459)	(61,145)
Increase (decrease) in deferred loan origination fees.....	1,199,017	(535,530)
Net cash provided by operating activities	<u>\$ 4,376,419</u>	<u>\$ 1,902,266</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 AND 2009**

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, 2010 and 2009 consisted of Treasury obligations (FNMA, FHLMC, and FHLB), municipal bonds, and 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, 2010 AND 2009**

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 2010 and 2009 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 and institutional money market accounts with maturities of three months or less when purchased.

(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 2010 and 2009 totaled \$8,199 and \$9,532, 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, 2010 AND 2009**

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 \$6,536,835 and \$5,337,818 at June 30, 2010 and 2009, 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 2010 and 2009 totaled \$439,996 and \$413,368, 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 \$1,242,865 and \$1,038,657 for fiscal years 2010 and 2009, 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, 2010 and 2009.

(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, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Recently Issued Accounting Standards

The Agency implemented GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets for year ended June 30, 2010. The adoption of this Statement did not have an impact on the Agency's financial position or results of operations.

The Agency implemented the following accounting pronouncements for the year ended June 30, 2009:

- √ GASB Statement No. 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.
- √ GASB Statement No. 56 – Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards.

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. 59 – Financial Instruments Omnibus, effective for the Agency's fiscal year ending June 30, 2011.

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 2009 financial statements to conform to the classifications used in the 2010 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, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

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

	<u>2010</u>	<u>2009</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.....	\$ 235,000	\$ 365,000
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	12,110,000	13,985,000
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....	3,890,000	4,500,000
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. On May 6, 2010, the Agency advance refunded \$415,000 of the outstanding bonds	1,860,000	2,610,000
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. On May 6, 2010, the Agency advance refunded \$4,990,000 of the outstanding bonds.....	12,695,000	19,995,000
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. On May 6, 2010, the Agency advance refunded \$4,985,000 of the outstanding bonds	8,885,000	15,270,000
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. On May 6, 2010, the Agency advance refunded \$7,430,000 of the outstanding bonds	8,630,000	17,320,000
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. On May 6, 2010, the Agency advance refunded \$7,505,000 of the outstanding bonds	13,205,000	22,005,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

	<u>2010</u>	<u>2009</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
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. On May 6, 2010, the Agency advance refunded \$25,260,000 of the outstanding bonds.....	28,485,000	57,215,000
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	11,485,000	12,310,000
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. On May 6, 2010, the Agency advance refunded \$20,645,000 of the outstanding bonds	31,255,000	55,250,000
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	59,475,000	61,035,000
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	41,610,000	43,780,000
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	51,815,000	54,225,000
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.....	38,910,000	39,740,000
2008 Wastewater Revenue Bonds dated April 30, 2008, with serial bonds of \$4,000,000 at 4.85% due annually from March 1, 2009 to March 1, 2028.	3,745,000	3,875,000
2009 Series A Bonds, dated October 6, 2009, with serial bonds of \$41,555,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2011 through October 1, 2030	41,555,000	0
2010 Series A Refunding Bonds, dated May 6, 2010, with serial bonds of \$77,140,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2010 through October 1, 2023	77,140,000	0
2010 Series B Bonds, dated June 24, 2010, with serial bonds of \$30,145,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2012 through October 1, 2030	30,145,000	0

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

	<u>2010</u>	<u>2009</u>
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	32,630,000	34,290,000
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	36,700,000	38,995,000
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	4,480,000	4,810,000
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	36,350,000
2009 Series A Bonds, dated November 19, 2009, with serial bonds of \$9,935,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2011 through October 1, 2030	9,935,000	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, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

	<u>2010</u>	<u>2009</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. On May 6, 2010, the Agency advance refunded \$7,440,000 of the outstanding bonds	0	9,195,000
Subtotal	652,710,000	602,605,000
Less: amount deferred on refunding	(5,161,833)	(669,440)
Add: bond premium (discount) net of amortization	28,212,977	17,281,956
Total bonds payable	<u>\$675,761,144</u>	<u>\$619,217,516</u>

Long-term liability activity for the year ended June 30, 2010 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	\$602,605,000	\$158,775,000	\$108,670,000 (1)	\$652,710,000	\$32,030,000
Plus: bond premium (discount), net of amortization	17,281,956	14,173,730	3,242,709	28,212,977	
Less: amount deferred on refunding	(669,440)	(4,679,173)	(186,780)	(5,161,833)	
Total long-term debt	<u>\$619,217,516</u>	<u>\$168,269,557</u>	<u>\$111,725,929</u>	<u>\$675,761,144</u>	<u>\$32,030,000</u>

(1) includes principal repayments of \$30,000,000 and advance refundings of \$78,670,000.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 32,030,000	\$ 28,659,805	\$ 60,689,805
2012	33,515,000	28,023,170	61,538,170
2013	35,535,000	26,633,876	62,168,876
2014	34,945,000	25,185,764	60,130,764
2015	35,200,000	23,693,288	58,893,288
2016 - 2020	190,310,000	93,987,873	284,297,873
2021 - 2025	183,760,000	46,475,990	230,235,990
2026 - 2030	84,335,000	14,891,918	99,226,918
2031 - 2035	19,925,000	2,835,681	22,760,681
2036	3,155,000	83,501	3,238,501
Total	<u>\$652,710,000</u>	<u>\$290,470,866</u>	<u>\$943,180,866</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

Advanced Refunding of Debt

On May 6, 2010, the Agency issued the 2010 Series A Water Pollution Control Subordinated Refunding Revenue Bonds. The proceeds from this bond issue were used to defease portions of the 1995 Series A, 1999 Series A, 1999 Series C, 2000 Series A, 2002 Series A, 2002 Series B, 2003 Series B, and fully refund the 1999 Series B Bonds. Upon delivery of the 2010 Series A Subordinated Refunding Bonds, the agency established an irrevocable escrow trust fund pursuant to a Refunding Trust Agreement between the Agency and U.S. Bank National Association. Under the terms of the Refunding Trust Agreement, the proceeds of the 2010 Series A Subordinated Refunding Bonds were deposited into escrow funds established for each series of Refunded Bonds which were invested in Investment Obligations maturing in amounts and bearing interest at rates sufficient to pay, when due, interest, and upon maturity or prior redemption on the earliest available redemption date, the outstanding principal of the Refunded Bonds. Each escrow fund is pledged solely for the benefit of holders of the applicable series of Refunded Bonds.

Since those bonds have, in effect, been redeemed under the defeasance, they are no longer outstanding under the Agency's basic bond resolution and, therefore, they are not entitled to the pledge of the basic bond resolution. Accordingly, these bonds and the related escrow funds are not reflected in the June 30, 2010 financial statements.

The following summarizes the refunded bonds and principal amounts refunded:

<u>Series</u>	<u>Principal Amount Refunded</u>	<u>Defeased Bonds Outstanding June 30, 2010</u>
1995 A	\$ 415,000	\$ 415,000
1999 A	4,990,000	4,990,000
1999 C	4,985,000	4,985,000
2000 A	7,430,000	7,430,000
2002 A	7,505,000	7,505,000
2002 B	25,260,000	25,260,000
2003 B	20,645,000	20,645,000
1999 B	7,440,000	0
Total	<u>\$78,670,000</u>	<u>\$71,230,000</u>

The Agency completed the advance refunding to reduce its total debt service payments over the next 14 years by \$6,354,832 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$5,251,498.

Bond Anticipation Notes

On July 23, 2009, the Agency received a Bond Anticipation Note (BAN) in the amount of \$15,000,000. The BAN required interest at 2.30% and matured on June 16, 2010.

On June 16, 2010, the Agency received a Bond Anticipation Note in the amount of \$15,000,000. The BAN requires interest at 2.00% and matures on April 6, 2011.

On October 27, 2009, the Agency received a Bond Anticipation Note in the amount of \$4,037,000. The BAN requires interest at 2.32% and matures on October 15, 2010.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. BONDS PAYABLE (Continued)

Short-term debt activity for the year ended June 30, 2010 was as follows:

	<u>Balance at June 30, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at June 30, 2010</u>
Bond anticipation notes	<u>\$0</u>	<u>\$34,037,000</u>	<u>\$15,000,000</u>	<u>\$19,037,000</u>

3. LOANS RECEIVABLE

At June 30, 2010 and 2009, the Agency had loans receivable of \$755,903,645 and \$730,578,848 representing 169 and 136 outstanding loans, respectively. At June 30, 2010 and 2009, the current portion of loans receivable (net of loan origination fees) totaled \$63,067,137 and \$46,292,241, respectively. In addition, at June 30, 2010 and 2009, the Agency had outstanding unused commitments totaling approximately \$174,839,612 and \$41,141,927 for the disbursement of future loans. For financial reporting purposes on the statement of net assets, total 2010 outstanding loans receivable of \$755,903,645 have been reduced by unamortized loan origination fees totaling \$6,536,835. For 2009, total outstanding loans receivable of \$730,578,848 have been reduced by unamortized loan origination fees totaling \$5,337,818.

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, 2010, the Agency had outstanding loans receivable to two borrowers representing 48% of the Agency's total loan receivable balance. At June 30, 2009, the Agency had outstanding loans receivable to two borrowers representing 54% of the Agency's total loan receivable balance.

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

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

At June 30, 2010, the carrying amount of the Agency's cash deposits was \$2,284,882. The bank balance was \$2,387,246 as of the same period, of which the entire amount was covered by the Federal Depository Insurance Corporation (the "FDIC"). The Agency also had nonnegotiable certificates of deposit totaling \$19,045,869 which were FDIC insured under the Certificate of Deposit Account Registry Service (CDARS) at June 30, 2010.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

At June 30, 2009, the carrying amount of the Agency's cash deposits was \$2,801,023. The bank balance was \$2,810,806 as of the same period, of which \$250,124 was covered by the Federal Depository Insurance Corporation (the "FDIC"), and \$2,560,682 was uninsured. The Agency also had nonnegotiable certificates of deposit totaling \$20,036,902 which were FDIC insured under the Certificate of Deposit Account Registry Service (CDARS) at June 30, 2009.

Cash and cash equivalents consisted of the following at June 30:

<u>Description</u>	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 100	\$ 100
Deposits with financial institutions	21,330,751	22,837,925
Institutional money market accounts – government portfolio	146,724,124	61,703,610
Total cash and cash equivalents	<u>\$168,054,975</u>	<u>\$84,541,635</u>

Deposits with financial institutions consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Checking accounts and demand deposits	\$ 2,284,882	\$ 2,801,023
Nonnegotiable certificates of deposits:		
0.11% dated 4/29/10, due 7/29/10	9,009,654	0
0.14% dated 6/10/10, due 9/9/10	10,036,215	0
1.65% dated 3/26/09, due 9/24/09	0	4,036,902
0.85% dated 6/11/09, due 9/10/09	0	10,000,000
0.70% dated 6/11/09, due 7/9/09	0	6,000,000
Total	<u>\$21,330,751</u>	<u>\$22,837,925</u>

The institutional money market funds – government portfolio totaling \$146,724,124 at June 30, 2010 and \$61,703,610 at June 30, 2009 had credit ratings of Aaa/AAAm by Standard and Poor's and Moody's respectively.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

The Agency's investments consisted of the following at June 30, 2010:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2010</u>
U.S. Agency Securities:				
Federal National Mortgage Association	\$17,770,513	2011 - 2024	1.750% - 6.160%	
Federal Home Loan Mortgage Corp	10,616,077	2010 - 2028	4.875% - 6.875%	
Federal Home Loan Bank	9,745,249	2013 - 2023	3.750% - 5.625%	
U.S. Treasury Bill	<u>1,518,500</u>	2010	1.250%	
Subtotal	<u>39,650,339</u>			
Municipal Bonds:				
Texas - College Student Loan Refunding ..	1,338,600	2017	5.00%	Aaa/AA+
Washington State	815,092	2019	4.50%	Aa2/N/A
Oregon State	15,521,698	2011 - 2023	2.664% - 5.435%	Aa2/AA-
New York State	<u>16,450,894</u>	2011 - 2016	2.975% - 4.70%	Aa2/AA
Subtotal	<u>34,126,284</u>			
Collateralized Repurchase Agreements:				
Societe Generale	1,786,800	2013	7.200%	Aa2/A+
Bayern LB	1,522,394	2016	5.600%	Aaa/AAA
Westdeutsche LB	<u>7,889,542</u>	2019	6.280%	Aaa/AAA
Subtotal	<u>11,198,736</u>			
Guaranteed Investment Contracts:				
Bayern LB	10,581,119	2020	5.330%	Aaa/AAA
FSA Capital Management	9,746,952	2024	4.710%	Aa3/AAA
FSA Capital Management	13,581,355	2025	4.670%	Aa3/AAA
FSA Capital Management	7,697,302	2027	4.793%	Aa3/AAA
FSA Capital Management	940,639	2028	5.060%	Aa3/AAA
Transamerica	9,482,632	2026	4.770%	A1/AA-
Citigroup Financial Products	12,838,288	2027	4.805%	A3/A
GE Capital Corp	<u>6,000,000</u>	2029	4.498%	Aa2/AA+
Subtotal	<u>70,868,287</u>			
Total Investments	<u>\$155,843,646</u>			

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

The Agency's investments consisted of the following at June 30, 2009:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2009</u>
U.S. Agency Securities:				
Federal National Mortgage Association.....	\$17,372,876	2009 - 2024	0.442% - 6.367%	
Federal Home Loan Mortgage Corp	5,119,166	2010 - 2024	1.079% - 6.33%	
Federal Home Loan Bank.....	<u>9,032,680</u>	2013 - 2023	2.614% - 4.638%	
Subtotal	<u>31,524,722</u>			
Municipal Bonds:				
Texas - College Student Loan Refunding ..	1,232,796	2017	5.00%	Aa1/AA
Washington State	762,188	2019	4.50%	Aa2/N/A
Oregon State	15,453,870	2010 - 2023	2.393% - 5.435%	Aa3/AA-
New York State.....	<u>18,541,140</u>	2010 - 2016	2.813% - 4.70%	Aa3/AA
Subtotal	<u>35,989,994</u>			
Collateralized Repurchase Agreements:				
Societe Generale	249,000	2009	6.480%	Aa2/A+
Societe Generale	2,091,500	2013	7.200%	Aa2/A+
Bayern LB.....	1,745,463	2016	5.600%	Aaa/AAA
Westdeutsche LB	<u>8,601,636</u>	2019	6.280%	Aaa/AAA
Subtotal	<u>12,687,599</u>			
Guaranteed Investment Contracts:				
Bayern LB.....	11,975,667	2020	5.330%	Aaa/AAA
FSA Capital Management.....	10,376,091	2024	4.710%	Aa3/AAA
FSA Capital Management.....	13,937,737	2025	4.670%	Aa3/AAA
FSA Capital Management.....	8,182,146	2027	4.793%	Aa3/AAA
FSA Capital Management.....	976,951	2028	5.060%	Aa3/AAA
Transamerica.....	9,971,269	2026	4.770%	A1/AA-
Transamerica.....	11,847,694	2009	4.466%	A1/AA-
Citigroup Financial Products.....	13,490,579	2027	4.805%	A3/A
GE Capital Corp.....	<u>6,000,000</u>	2029	4.498%	Aa2/AA+
Subtotal	<u>86,758,134</u>			
Total Investments	<u>\$166,960,449</u>			

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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.

At June 30, 2010, maturities of the Agency's investment were as follows:

<u>Description</u>	<u>Investment Maturities (Fair Value by Years)</u>				
	<u>Total Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
U.S. Agency Securities	\$ 39,650,339	\$2,567,186	\$21,173,198	\$ 6,451,059	\$ 9,458,896
Municipal Bonds.....	34,126,284	3,917,565	16,485,119	10,085,370	3,638,230
Collateralized Repurchase Agreements.....	11,198,736		1,786,800	1,522,394	7,889,542
Guaranteed Investment Contracts.....	<u>70,868,287</u>				<u>70,868,287</u>
Total	<u>\$155,843,646</u>	<u>\$6,484,751</u>	<u>\$39,445,117</u>	<u>\$18,058,823</u>	<u>\$91,854,955</u>

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.

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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

5. CAPITALIZATION GRANTS (Continued)

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, 2010:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2007:		
Federal award	\$ 7,159,200	\$ 0
State match	1,431,840	0
2008:		
Federal award	4,515,300	4,135,388
State match	903,060	0
2009:		
Federal award	4,515,300	4,515,300
State match	903,060	0
2009 ARRA (American Recovery & Reimbursement Act of 2009) .	26,314,600	18,268,855
2010:		
Federal award (applied for July 2010).....	13,681,000	13,681,000
State match (applied for July 2010).....	2,736,200	2,736,200

(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, 2010 AND 2009**

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, 2010:

<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
2003:		
Federal award	8,004,100	75,771
State match	1,600,820	0
2004:		
Federal award	8,303,100	166,062
State match	1,660,620	0
2005:		
Federal award	8,285,500	669,013
State match	1,657,100	0
2006:		
Federal award	8,229,300	5,784,987
State match	1,645,860	0
2007:		
Federal award	8,229,000	7,759,388
State match	1,645,800	0
2008:		
Federal award	8,146,000	8,146,000
State match	1,629,200	0
2009 - 2010 ARRA: (American Recovery & Reimbursement Act of 2009)	19,500,000	13,459,695
2009		
Federal award (applied for June 2010)	8,146,000	N/A
State match (applied for June 2010)	1,629,200	N/A

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 and 2009.

The Agency is obligated to remit to the administrator an amount equal to 10% of employee compensation on a monthly basis. The Agency's contribution totaled \$40,650 and \$39,853 for the years ended June 30, 2010 and 2009, 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 \$16,500 (\$22,000 if age 50 or older). 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, 2010 and 2009 were \$20,328 and \$24,536, 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 2010, the Agency incurred rent expense of \$57,039. During fiscal year 2009, the Agency incurred rent expense of \$55,520. 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>
2011.....	\$ 57,396
2012.....	59,891
2013.....	<u>52,405</u>
Total	<u>\$169,692</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

8. PROPERTY AND EQUIPMENT

The summary of changes in property and equipment at June 30, 2010 are summarized below:

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2010</u>
Cost:				
Computers.....	\$ 59,688	\$5,286	\$7,785	\$ 57,189
Furniture and fixtures	21,700			21,700
Equipment.....	34,126	3,880	7,405	30,601
Leasehold Improvements.....	29,701			29,701
Total cost	<u>145,215</u>	<u>9,166</u>	<u>15,190</u>	<u>139,191</u>
Accumulated depreciation:				
Computers.....	57,474	2,357	7,785	52,046
Furniture and fixtures	20,794	259		21,053
Equipment.....	22,249	4,098	7,405	18,942
Leasehold Improvements.....	8,168	1,485		9,653
Total accumulated depreciation	<u>108,685</u>	<u>8,199</u>	<u>15,190</u>	<u>101,694</u>
Net capital assets	<u>\$ 36,530</u>	<u>\$ 967</u>	<u>\$ 0</u>	<u>\$ 37,497</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, 2010, 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. This amount totaled approximately \$19,260,000 at June 30, 2010.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 and 2009.

12. SUBSEQUENT EVENTS

Management has evaluated potential subsequent events through October 7, 2010 (the date the financial statements were available to be issued) and determined that no disclosures are required.

(CONCLUDED)
