

**RHODE ISLAND CLEAN WATER
FINANCE AGENCY**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2012 and 2011**

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, 2012 and 2011, 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 respective financial position of the RHODE ISLAND CLEAN WATER FINANCE AGENCY as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof 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 28, 2012, 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 12 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. Such information is the responsibility of management and was derived from and relates 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. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

September 28, 2012

Cayer 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, 2012. 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, 2012 were \$1,361,254,597, which is an increase of \$79,787,979 or 6% over June 30, 2011.
- The Agency's operating revenues for the fiscal year ended June 30, 2012 were \$37,019,864, which is an increase of \$6,285,301 or 20% over the fiscal year ended June 30, 2011.
- The Agency's operating expenses for the fiscal year ended June 30, 2012 were \$34,771,648 which is an increase of \$1,083,522 or 3% over the fiscal year ended June 30, 2011.
- The Agency's total net assets for the fiscal year ended June 30, 2012 were \$460,021,569, which is an increase of \$29,812,478 or 7% over the fiscal year ended June 30, 2011.

INVESTMENT HIGHLIGHTS:

- The present turmoil in the financial markets limits the qualifying investment alternatives for existing cash, bond proceeds and grant funds. The interest rates on secured investments are near historic lows and the long-term investments required by the Agency financing model in the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) may subject those programs to additional investment interest rate risk. Lower investment interest rates also reduce the Agency's loan capacity, the dollars available to fund new loans, while maintaining the same rate of loan interest subsidy.
- 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.

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

INVESTMENT HIGHLIGHTS (Continued):

- 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.

- 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 (Local Interest Subsidy Trust). 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 the Agency's revenue.

2012 FISCAL SUMMARY:

In other activity, the Agency has assumed \$69,280,000 in new bond indebtedness; however the Agency has created additional assets by issuing new loans to Rhode Island borrowers totaling \$120,890,000.

- September 30, 2011, the Agency issued a \$6,640,000 Conduit Bond Issue to the City of Newport. This bond issue / loan financed construction of repairs to Easton's Pond Dam & Moat (Dam Project).

- June 14, 2012, the Agency issued a \$34,620,000 Series 2012A DW Bond Issue. This bond issue was part of a total loan pool of \$56,055,000 made to three borrowers in the Drinking Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Newport	\$53,100,000
Pascoag	1,000,000
Pawtucket	<u>1,955,000</u>
	<u>\$56,055,000</u>

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

2012 FISCAL SUMMARY (Continued):

- June 26, 2012, the Agency issued a \$2,400,000 Conduit Bond Issue Loan to the City of Warwick via The Washington Trust. This bond issue / loan financed repairs to the Cedar Swamp Pump Station and Interceptor and upgrades to the HVAC and electrical system.

- June 28, 2012, the Agency issued a \$25,620,000 Series 2012A CW Bond Issue. This bond issue was part of a total loan pool of \$55,795,000 made to seven borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Bristol	\$ 2,395,000
Coventry	2,400,000
East Providence	17,500,000
Middletown	1,500,000
NBC	25,000,000
Providence WSB	3,000,000
Smithfield	<u>4,000,000</u>
	<u>\$55,795,000</u>

The Agency continues to provide communities financial assistance to protect the water resources in the State of Rhode Island as listed below:

- July 25, 2011, the Agency issued a CSSLP loan to the Town of Tiverton in the amount of \$300,000.

- August 22, 2011, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.

- August 30, 2011, the Agency issued an Interim loan to the City of Woonsocket in the amount of \$4,000,000.

- September 30, 2011, the Agency refinanced a Bond Anticipation Note (BAN) in the amount of \$4,037,000 plus additional funds of \$1,068,000 to the City of Newport for a BAN in the amount of \$5,105,000.

- October 7, 2011, the Agency issued a Drinking Water Direct Loan to Bristol County Water Authority in the amount of \$1,000,000.

- October 27, 2011, the Agency issued a STILF Loan to the Town of Coventry in the amount of \$150,000.

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

2012 FISCAL SUMMARY (Continued):

- November 4, 2011, the Agency issued a Drinking Water Direct Loan to the City of East Providence in the amount of \$2,000,000.
- November 4, 2011, the Agency issued a Drinking Water Direct Loan to the City of Pawtucket in the amount of \$7,485,000.
- January 11, 2012, the Agency issued a CSSLP loan to the Town of Warren in the amount of \$300,000.
- March 23, 2012, the Agency issued an interim / bridge loan to the City of Newport (DWSRF) in the amount of \$5,500,000.
- May 18, 2012, the Agency issued an interim / bridge loan to the City of East Providence in the amount of \$8,000,000.
- May 21, 2012, the Agency issued a STILF loan to the Town of Tiverton in the amount of \$150,000.
- June 14, 2012, the Agency issued a Drinking Water Direct loan to Portsmouth Water and Fire District in the amount of \$1,300,000.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

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

Statement of Revenues, Expenses and Changes in Net Assets – This statement presents the Agency's operating revenues, operating expenses, 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, 2012 was \$460,021,569, which is an increase of \$29,812,478 or 7% over June 30, 2011. Components of the Agency's statement of net assets were as follows at June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Other assets	\$1,361,224,502	\$1,281,437,517	\$1,261,731,017
Capital assets	<u>30,095</u>	<u>29,101</u>	<u>37,497</u>
Total assets	<u>1,361,254,597</u>	<u>1,281,466,618</u>	<u>1,261,768,514</u>
Current liabilities	198,300,115	185,406,058	229,528,429
Non-current liabilities	<u>702,932,913</u>	<u>665,851,469</u>	<u>647,940,105</u>
Total liabilities	<u>901,233,028</u>	<u>851,257,527</u>	<u>877,468,534</u>
Net assets			
Invested in capital assets	30,095	29,101	37,497
Restricted for debt service	425,208,667	399,829,509	358,370,130
Unrestricted	<u>34,782,807</u>	<u>30,350,481</u>	<u>25,892,353</u>
Total net assets	<u>\$ 460,021,569</u>	<u>\$ 430,209,091</u>	<u>\$ 384,299,980</u>

The increases noted above in the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2012 increase results from the Agency closing a \$6.64 million Conduit issue in September, a \$25.62 million Clean Water bond issue, a \$34.62 million Drinking Water bond issue and a \$2.4M Conduit issue which all closed in June, along with several smaller loans issued during Fiscal Year 2012. Total assets increased from \$1,281,466,618 at June 30, 2011 to \$1,361,254,597 at June 30, 2012. Current liabilities increased from \$185,406,058 at June 30, 2011 to \$198,300,115 or 7% at June 30, 2012. The growth over the past year also relates to non-current liabilities totaling \$702,932,913 which is an increase of \$37,081,444 or 6% over June 30, 2011. 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**

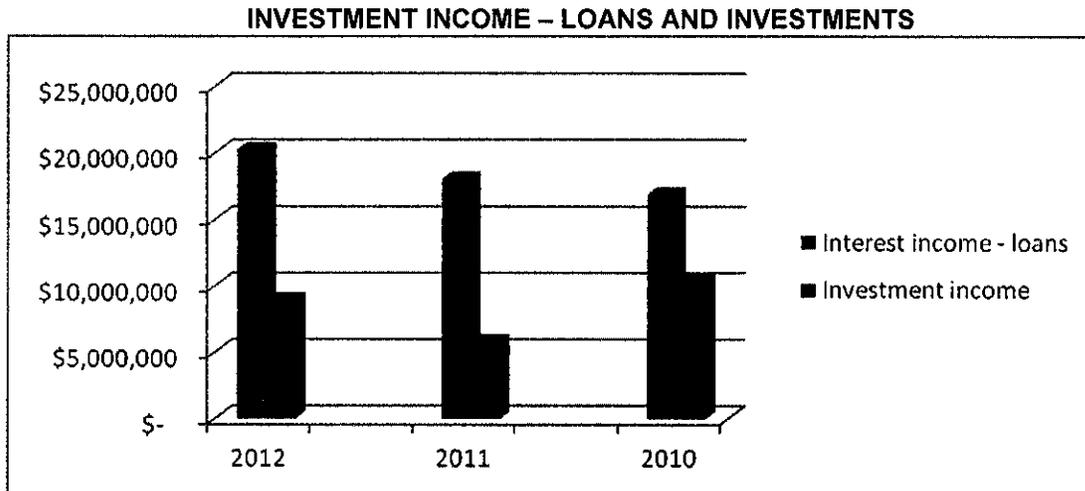
CHANGES IN NET ASSETS

The Agency's change in net assets for the fiscal year ended June 30, 2012 was \$29,812,478 or an increase of 7%. The increase results from the following: an increase in interest income (due to new loans) and investment income at June 30, 2012.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interest income – loans	\$ 20,243,192	\$ 18,032,532	\$ 16,880,564
Investment income	8,970,388	5,818,927	10,391,422
Grant income - DEM & DOH	3,093,664	2,496,008	2,247,603
Grant income - federal and state	27,564,262	48,862,674	22,355,699
Other operating revenues	<u>4,712,620</u>	<u>4,387,096</u>	<u>4,207,061</u>
Total income	<u>64,584,126</u>	<u>79,597,237</u>	<u>56,082,349</u>
Interest expense	29,183,407	29,447,926	28,152,930
Other operating expenses:			
Consulting fees: DEM & DOH	3,093,664	2,496,008	2,247,603
Loan principal forgiveness	803,813	163,156	-
General administration	1,268,656	1,224,676	1,148,242
Professional fees	<u>422,108</u>	<u>356,360</u>	<u>484,934</u>
Operating expenses	<u>34,771,648</u>	<u>33,688,126</u>	<u>32,033,709</u>
Increase in net assets	29,812,478	45,909,111	24,048,640
Net assets, beginning of year	<u>430,209,091</u>	<u>384,299,980</u>	<u>360,251,340</u>
Total net assets, end of year	<u>\$ 460,021,569</u>	<u>\$ 430,209,091</u>	<u>\$ 384,299,980</u>

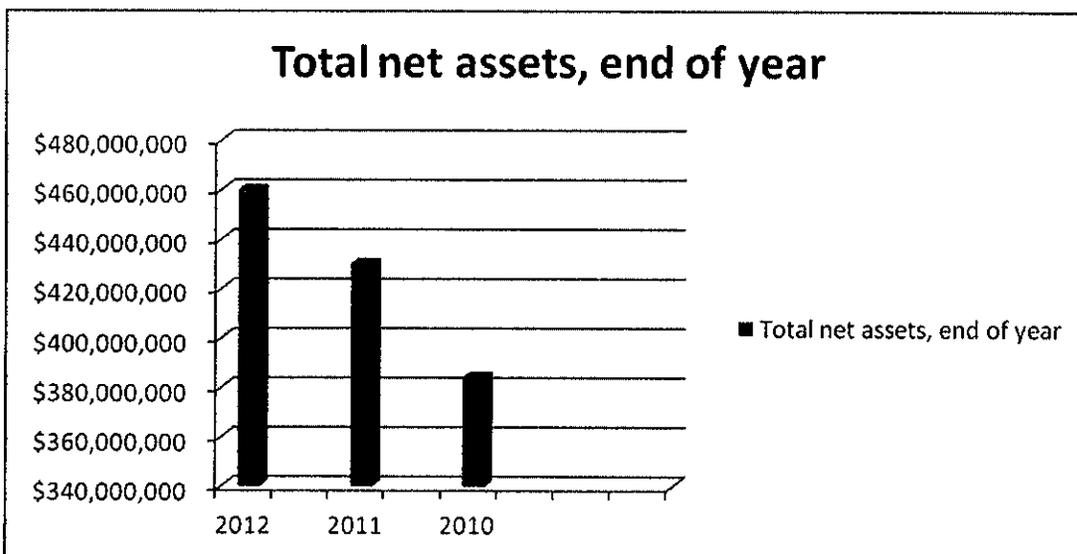
**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

As graphically portrayed below, the increase in interest income-loans is related to the growth in the Agency's portfolio. Interest income was \$20,243,192 at June 30, 2012 an increase of 12% from June 30, 2011.



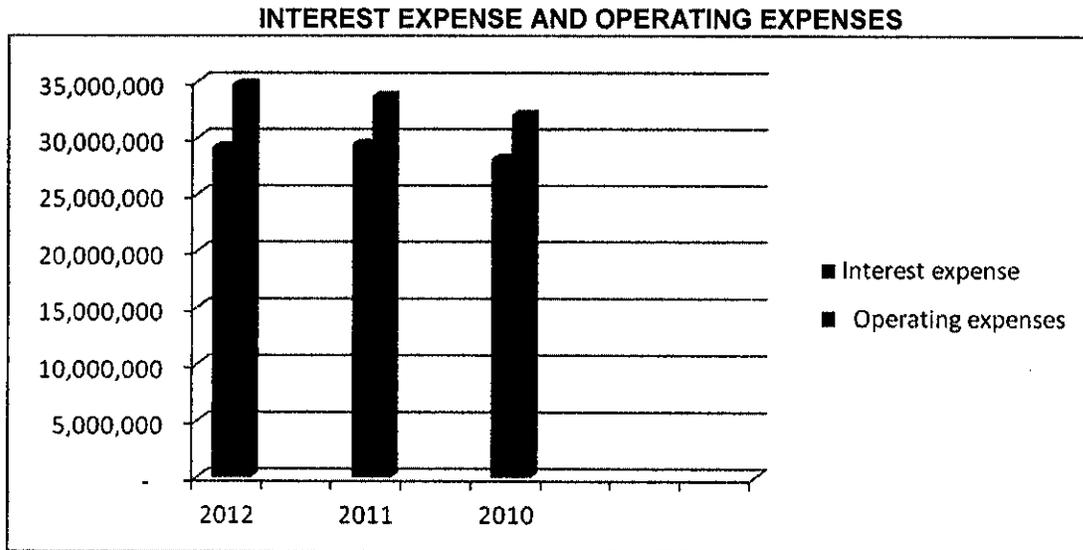
As graphically shown above and discussed earlier, investment income increased to \$8,970,388 at June 30, 2012 from \$5,818,927 at June 30, 2011 representing a 54% increase. The majority of this increase was due to an unrealized gain on investments at June 30, 2012.

The increase in investment interest income combined with the decrease in ARRA grant income – resulted in a 19% decrease in total income. Total net assets at June 30, 2012 were \$460,021,569 which was an increase of 7% over fiscal year June 30, 2011.



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

Interest expense decreased slightly due to the Agency not closing two bond issues until the last month of the Agency's fiscal year (June). Operating expenses were \$34,771,648 at June 30, 2012, a 3% increase over June 30, 2011.



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, 2012, 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. The Agency has a Rhode Island Zero Interest Loan Fund (RIZILF) which has made 59 loans totaling \$255 million. The Agency has established a Sewer Tie In Loan Fund (STILF) under the RIWPCRF.

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

At June 30, 2012, the Agency had \$706,985,000 of bond indebtedness, an increase of 5% from the \$671,225,000 outstanding at June 30, 2011. 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, short-term and long-term financing 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.

Principal Forgiveness Loans – These are loans the Agency is required to make by EPA. Starting with the 2009 ARRA Capitalization Grants for Clean Water and Drinking Water Programs, EPA has had a requirement that a certain percentage of each Capitalization Grant must be given to the Agency's borrowers as Principal Forgiveness Loans. The Agency awards the principal forgiveness over the life of the borrower's loan. As of June 30, 2012 the Agency has made a total of \$30,559,362 of Principal Forgiveness Loans and has forgiven \$966,969 of their loans in both the clean water and drinking water programs as of June 30, 2012.

FACTORS AFFECTING FUTURE OPERATIONS:

1. During fiscal year 2012 the federal government continued the unlimited deposit insurance for non-interest bearing accounts. This temporary unlimited coverage is scheduled to expire on December 31, 2012.
2. Guaranteed investment contract provider ratings are shown on page 30 and are stated as of June 30, 2012. 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
Management's Discussion and Analysis**

REQUEST FOR INFORMATION:

The financial report is designed to provide a general overview of the Agency's financial activity for fiscal year 2012. 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 info@ricwfa.com.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents and investments:		
Unrestricted:		
Cash equivalents	\$ 30,611,671	\$ 24,414,394
Total unrestricted cash equivalents	<u>30,611,671</u>	<u>24,414,394</u>
Restricted:		
Cash equivalents	155,541,076	159,922,748
Investments	134,750,248	143,407,742
Total restricted cash equivalents and investments	<u>290,291,324</u>	<u>303,330,490</u>
Restricted loans receivable, net	58,518,483	52,727,597
Accrued interest receivable:		
Loans	6,801,555	6,015,652
Investments	1,467,660	1,603,354
Accounts receivable – service fees	1,319,904	1,209,296
Prepaid expenses and other receivables	176,025	158,020
Total current assets	<u>389,186,622</u>	<u>389,458,803</u>
Noncurrent assets:		
Restricted loans receivable, net	964,567,061	884,987,730
Bond issuance costs, net of accumulated amortization	7,470,819	6,990,984
Total noncurrent assets	<u>972,037,880</u>	<u>891,978,714</u>
Capital assets:		
Property and equipment, net of accumulated depreciation	30,095	29,101
TOTAL ASSETS	<u>1,361,254,597</u>	<u>1,281,466,618</u>
<u>LIABILITIES</u>		
Current liabilities:		
Project costs payable	146,352,880	139,618,989
Bonds payable	38,091,000	33,520,000
Accrued interest payable	7,807,190	7,944,937
Accounts payable and accrued expenses	944,045	285,132
Bond anticipation notes	5,105,000	4,037,000
Total current liabilities	<u>198,300,115</u>	<u>185,406,058</u>
Noncurrent liabilities:		
Bonds payable, net of current portion	701,648,823	663,098,814
Accrued arbitrage rebate	1,284,090	2,752,655
Total noncurrent liabilities	<u>702,932,913</u>	<u>665,851,469</u>
TOTAL LIABILITIES	<u>901,233,028</u>	<u>851,257,527</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	30,095	29,101
Restricted	425,208,667	399,829,509
Unrestricted	34,782,807	30,350,481
TOTAL NET ASSETS	<u>\$ 460,021,569</u>	<u>\$ 430,209,091</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Investment income	\$ 8,970,388	\$ 5,818,927
Interest income - loans	20,243,192	18,032,532
Grant income - operating	3,093,664	2,496,008
Service fees	3,792,086	3,535,368
Direct loan fees and other	254,780	211,710
Loan origination fees	665,754	640,018
Total operating revenues	<u>37,019,864</u>	<u>30,734,563</u>
Operating expenses:		
Interest expense	29,183,407	29,447,926
Consulting fees - D.E.M and D.O.H.	3,093,664	2,496,008
Employee expense	638,471	615,616
Finance expense	0	10,250
Insurance expense	14,002	15,596
Legal fees	118,916	104,712
Loan principal forgiveness	803,813	163,156
Office expense	93,226	91,023
Accounting and auditing	40,591	33,537
Depreciation and amortization expense ..	491,863	471,856
Trustee/bank fees	178,237	163,386
Promotional expenses	8,571	4,220
Financial advisor fees	84,364	54,725
Dues and subscriptions	8,396	8,154
Seminars	1,955	925
Business and travel expense	7,662	3,704
Miscellaneous expense	4,510	3,332
Total operating expenses	<u>34,771,648</u>	<u>33,688,126</u>
Operating income (loss)	2,248,216	(2,953,563)
Nonoperating revenue:		
Grant income - non-operating	<u>27,564,262</u>	<u>48,862,674</u>
Changes in net assets	29,812,478	45,909,111
Net assets, beginning of the year	<u>430,209,091</u>	<u>384,299,980</u>
Net assets, end of the year	<u>\$460,021,569</u>	<u>\$430,209,091</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts for loan repayments	\$ 67,216,937	\$ 61,612,798
Cash receipts for operating grants.....	3,093,664	2,496,008
Cash receipts for loan origination fees	1,254,093	714,415
Cash receipts for service fees	3,681,478	3,466,189
Cash receipts for direct loan fees and other.....	254,780	211,710
Cash payments for loan disbursement activities	(147,245,415)	(110,579,879)
Cash payments to suppliers	(3,013,186)	(3,147,875)
Cash payments to employees.....	(638,471)	(615,616)
Net cash used for operating activities	<u>(75,396,120)</u>	<u>(45,842,250)</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment.....	(9,777)	0
Cash flows from non-capital financing activities:		
Proceeds from bond issuance	77,712,370	52,942,749
Repayment of bond principal	(33,520,000)	(32,030,000)
Non-operating grants received.....	27,564,262	51,265,734
Interest paid on revenue bonds	(30,392,516)	(28,992,009)
Bond issuance costs capitalized.....	(962,914)	(491,600)
Proceeds from bond anticipation notes	5,105,000	4,037,000
Repayment of bond anticipation notes	(4,037,000)	(19,037,000)
Net cash provided by non-capital financing activities	<u>41,469,202</u>	<u>27,694,874</u>
Cash flows from investing activities:		
Investment income.....	5,949,960	6,454,839
Interest income – loan program	19,457,289	17,496,509
Interest rebate paid to US Government	(1,206,042)	(1,705,772)
Proceeds from sale of investments.....	11,551,093	12,183,967
Net cash provided by investing activities.....	<u>35,752,300</u>	<u>34,429,543</u>
Net increase in cash and cash equivalents.....	1,815,605	16,282,167
Cash and cash equivalents, beginning of the year.....	<u>184,337,142</u>	<u>168,054,975</u>
Cash and cash equivalents, end of the year	<u>\$ 186,152,747</u>	<u>\$ 184,337,142</u>

(CONTINUED)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash used for operating activities:		
Operating income (loss)	\$ 2,248,216	\$ (2,953,563)
Adjustments:		
Investment income	(8,970,388)	(5,818,927)
Interest income - loans	(20,243,192)	(18,032,532)
Interest expense	29,183,407	29,447,926
Depreciation/amortization	491,863	471,856
Loan principal forgiveness	803,813	163,156
Increase in loans receivable, net	(80,028,478)	(48,967,081)
(Increase) decrease in prepaid expenses	(18,005)	15,600
Increase (decrease) in accounts payable and accrued expenses	658,913	(173,903)
Increase in accounts receivable – service fees	(110,608)	(69,179)
Increase in deferred loan origination fees	588,339	74,397
Net cash used for operating activities	<u>\$ (75,396,120)</u>	<u>\$ (45,842,250)</u>
 Supplemental Cash Flow Information:		
Noncash investing activities:		
Increase (decrease) in loans receivable issued related to project costs payable	\$ 6,733,891	\$(30,949,463)
Increase (decrease) in fair value of investments	\$ 2,893,599	\$ (251,937)

(CONCLUDED)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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 of accounting and, accordingly, recognizes revenue when earned and expenses as incurred.

As permitted by GASB No. 20, 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, 2012 AND 2011**

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, 2012 and 2011 consisted of Treasury obligations (FNMA, FHLMC, and FHLB), municipal bonds, 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, 2012 AND 2011**

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 2012 and 2011 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 2012 and 2011 totaled \$8,783 and \$8,396, 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

The Agency has bonds outstanding which are subject to arbitrage limitations. The term "arbitrage rebate" refers to the required payment to the U.S. Treasury Department of excess earnings received on applicable tax-exempt bond proceeds that are invested at a higher yield than the yield of the tax-exempt bond issue. The Agency's ultimate rebate of arbitrage earnings on these issues is contingent on various factors, including future yields on invested proceeds.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Accrued Arbitrage Rebate (Continued)

Based on the interim calculations that were performed as of June 30, 2012 and 2011, the Agency had accrued arbitrage rebate liabilities totaling \$1,284,090 and \$2,752,655 at June 30, 2012 and 2011, respectively. During 2012 and 2011 the Agency paid to the U.S. Treasury Department \$1,206,042 and \$1,705,772 in arbitrage rebate liabilities, respectively. The rebate obligations are generally computed and adjusted, as applicable, on a periodic basis in accordance with regulations promulgated by the U.S. Treasury Department. Required rebates are generally due and payable in five-year intervals during the life of debt issues, with rebates due upon the retirement of the debt issues.

(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 \$ 7,199,571 and \$6,611,232 at June 30, 2012 and 2011, 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 2012 and 2011 totaled \$483,080 and \$463,460, 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 \$1,648,071 and \$631,789 for fiscal years 2012 and 2011, 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, 2012 and 2011.

(m) Grant Revenue

The Agency recognizes grant revenues upon the acceptance of their request for drawdown by the grantor agency and when qualifying commitments and all other grant requirements have been satisfied.

(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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 consist of cash and cash equivalents, investments designated primarily for borrower construction drawdowns, borrower interest rate subsidies, and arbitrage rebate liabilities related to the Water Pollution Control Revolving Fund, Rhode Island Water Pollution Control Revolving Fund, and Drinking Water State Revolving Fund. Certain loans receivable in the Water Pollution Control Revolving Fund and Drinking Water State Revolving Fund provide security for the related bonds. Loan payments received are restricted for payment of bond debt service.

(q) Resource Use

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

(r) Recently Issued Accounting Standards

The Agency did not implement any GASB Statements for the fiscal year ended June 30, 2012.

The Agency implemented GASB Statement No. 59 – Financial Instruments Omnibus, for the fiscal year ended June 30, 2011. The adoption of this Statement did not have an impact on the Agency's financial position or results of operations.

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

- √ GASB Statement No. 61 – The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, effective for the Agency's fiscal year ending June 30, 2013.
- √ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Agency's fiscal year ending June 30, 2013.
- √ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Agency's fiscal year ending June 30, 2013.
- √ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Agency's fiscal year ending June 30, 2014.
- √ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, effective for the Agency's fiscal year ending June 30, 2014.

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

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income Tax

The Agency is exempt from federal and state income taxes.

(t) Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the classifications used in the 2012 financial statements. The Agency included undisbursed loan proceeds of \$139,618,989 in its June 30, 2011 loan receivable balance and a corresponding liability, project costs payable. This change had no effect on the Agency's net assets at June 30, 2011.

(u) Project Costs Payable

Project costs payable represents the liability of amounts loaned to borrowers that have not been requisitioned by the borrowers for their projects as of year-end, and totaled \$146,352,880 and \$139,618,989 at June 30, 2012 and 2011, respectively. Included in these amounts is \$41,241,259 and \$66,378,991 payable to Narragansett Bay Commission, the Agency's largest borrower.

(v) Compensated Absences

The Agency has a policy which allows employees to accumulate unused vacation and sick leave benefits up to a certain maximum number of days. Compensated absences are recognized as current salary costs when incurred and are recorded in accounts payable and accrued expenses in the statement of net assets. The balance of accrued vacation and sick leave was \$155,963 and \$151,073 at June 30, 2012 and 2011, respectively.

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.

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

	<u>2012</u>	<u>2011</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	\$ 55,000	\$ 130,000
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	8,210,000	10,185,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

2. BONDS PAYABLE (Continued)

	<u>2012</u>	<u>2011</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
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.....	2,625,000	3,270,000
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.....	1,300,000	1,525,000
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	9,270,000	10,555,000
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.....	6,480,000	7,480,000
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.....	6,585,000	7,340,000
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.....	10,515,000	11,875,000
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. On May 6, 2010, the Agency advance refunded \$25,260,000 of the outstanding bonds	21,350,000	24,965,000
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.....	9,805,000	10,660,000
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.....	24,555,000	27,555,000
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	55,000,000	58,000,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

2. BONDS PAYABLE (Continued)

	<u>2012</u>	<u>2011</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
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	36,875,000	39,270,000
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	46,930,000	49,380,000
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.....	36,520,000	37,950,000
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.	3,465,000	3,610,000
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	41,055,000	41,555,000
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.....	71,125,000	74,675,000
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	30,145,000
2011 Series A Bonds, dated March 29, 2011, with serial bonds of \$40,200,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2012 through October 1, 2032	40,200,000	40,200,000
2012 Series A Bonds, (City of Warwick), dated June 26, 2012, with serial bonds of \$2,400,000 at 3.285% due annually from August 1, 2012 through August 1, 2022	2,400,000	0
2012 Series A Bonds, dated June 28, 2012, with serial bonds of \$25,620,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2014 through October 1, 2033.	25,620,000	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

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

2. BONDS PAYABLE (Continued)

Safe Drinking Water Revenue Bonds (Continued):

	<u>2012</u>	<u>2011</u>
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	29,450,000	31,090,000
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	32,005,000	34,345,000
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	3,860,000	4,165,000
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.....	34,615,000	35,535,000
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	9,885,000	9,935,000
2011 Series A Bonds, (City of Newport), dated March 31, 2011 with serial bonds of \$10,345,000 at 4.30% due annually from September 1, 2011 through September 1, 2026	10,340,000	10,345,000
2011 Series A Bonds, (City of Newport), dated September 30, 2011 with serial bonds of \$6,640,000 at 3.4% due annually from September 1, 2012 through September 1, 2027.....	6,640,000	0
2012 Series A Bonds, dated June 14, 2012, with serial bonds of \$34,620,000 at rates varying from 0.55% to 5.00% due annually from October 1, 2014 through October 1, 2033	34,620,000	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
Subtotal	706,985,000	671,225,000
Less: amount deferred on refunding	(4,008,411)	(4,585,122)
Add: bond premium (discount) net of amortization	36,763,234	29,978,936
Total bonds payable	<u>\$739,739,823</u>	<u>\$696,618,814</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

2. BONDS PAYABLE (Continued)

Long-term liability activity for the year ended June 30, 2012 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.....	\$671,225,000	\$69,280,000	\$33,520,000	\$706,985,000	\$38,091,000
Plus: bond premium (discount), net of amortization	29,978,936	8,432,370	1,648,072	36,763,234	
Less: amount deferred on refunding	(4,585,122)	0	(576,711)	(4,008,411)	
Total long-term debt	<u>\$696,618,814</u>	<u>\$77,712,370</u>	<u>\$34,591,361</u>	<u>\$739,739,823</u>	<u>\$38,091,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 38,091,000	\$ 31,072,094	\$ 69,163,094
2014.....	36,907,000	30,146,197	67,053,197
2015.....	40,274,000	28,557,054	68,831,054
2016.....	40,276,000	26,818,126	67,094,126
2017.....	40,758,000	25,113,089	65,871,089
2018 - 2022.....	232,354,000	95,112,298	327,466,298
2023 - 2027.....	173,785,000	43,608,671	217,393,671
2028 - 2032.....	84,875,000	13,800,361	98,675,361
2033 - 2036.....	19,665,000	1,599,488	21,264,488
Total	<u>\$706,985,000</u>	<u>\$295,827,378</u>	<u>\$1,002,812,378</u>

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, 2012 and 2011 financial statements.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

2. BONDS PAYABLE (Continued)

Advanced Refunding of Debt (Continued)

The following summarizes the refunded bonds and principal amounts refunded:

<u>Series</u>	<u>Principal Amount Refunded</u>	<u>Defeased Bonds Outstanding June 30, 2012</u>
1995 A	\$ 415,000	\$ 0
1999 A	4,990,000	0
1999 C	4,985,000	0
2000 A	7,430,000	0
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>\$53,410,000</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

The Agency utilizes short-term borrowing to provide interim financing to borrowers.

On October 15, 2010, the Agency received a Bond Anticipation Note in the amount of \$4,037,000. The BAN required interest at 1.98% and matured on October 13, 2011.

On September 30, 2011, the Agency received a Bond Anticipation Note in the amount of \$5,105,000. The BAN requires interest at 1.75% and matures on September 7, 2012.

Short-term debt activity for the year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at June 30, 2012</u>
Bond anticipation notes.....	<u>\$4,037,000</u>	<u>\$5,105,000</u>	<u>\$4,037,000</u>	<u>\$5,105,000</u>

3. LOANS RECEIVABLE

At June 30, 2012 and 2011, the Agency had loans receivable of \$1,030,285,115 and \$944,326,559 representing 191 and 175 outstanding loans, respectively, which are restricted for payment of bond debt service. At June 30, 2012 and 2011, the current portion of loans receivable (net of loan origination fees) totaled \$58,518,483 and \$52,727,597, respectively. In addition, at June 30, 2012 and 2011, the Agency had outstanding unused commitments (project costs payable) totaling approximately \$146,352,880 and \$139,618,989 for the disbursement of future loans. For financial reporting purposes on the statement of net assets, total 2012 outstanding loans receivable of \$1,030,285,115 have been reduced by unamortized loan origination fees totaling \$7,199,571. For 2011, total outstanding loans receivable of \$944,326,559 have been reduced by unamortized loan origination fees totaling \$6,611,232.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

3. LOANS RECEIVABLE (Continued)

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.

The Agency had loans receivable to three borrowers representing 63% of the Agency's total loan receivable balance at June 30, 2012. The Agency had loans receivable to two borrowers representing 56% of the Agency's total loan receivable balance at June 30, 2011.

The Agency has received ARRA and non-ARRA capitalization grants which can be used to issue principal forgiveness loans. The Agency was awarded American Recovery and Reinvestment Act (ARRA) Capitalization Grants for use in its Clean Water and Drinking Water SRF's. ARRA Grants are for purposes consistent with the intent of Clean Water and Drinking Water SRF, including construction of waste water treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The ARRA capitalization grants do not require a state match component. The ARRA Capitalization Grants stipulated that the Agency must have committed loans to recipients with signed construction contracts by February 17, 2010; this requirement was met in 2010.

The Agency's total capitalization grants available for principal forgiveness loans at June 30, 2012 are summarized below:

Clean Water SRF

<u>Capitalization Grant</u>	<u>Capitalization Grant Award</u>	<u>Principal Forgiveness Component</u>	<u>Principal Forgiveness Loans Issued June 30, 2012</u>
2009 (ARRA)	\$26,314,600	\$13,157,300	\$13,157,300
2010.....	13,681,000	2,048,980	2,048,980
2011.....	<u>9,915,000</u>	<u>918,782</u>	<u>918,782</u>
Total	<u>\$49,910,600</u>	<u>\$16,125,062</u>	<u>\$16,125,062</u>

Drinking Water SRF

<u>Capitalization Grant</u>	<u>Capitalization Grant Award</u>	<u>Principal Forgiveness Component</u>	<u>Principal Forgiveness Loans Issued June 30, 2012</u>
2009 (ARRA)	\$19,500,000	\$ 9,750,000	\$ 9,750,000
2010.....	13,573,000	4,071,900	4,071,900
2011.....	<u>9,418,000</u>	<u>2,825,400</u>	<u>612,400</u>
Total	<u>\$42,491,000</u>	<u>\$16,647,300</u>	<u>\$14,434,300</u>

The above schedule includes \$10,803,556 in principal forgiveness loans issued to Narragansett Bay Commission, the Agency's largest borrower.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

3. LOANS RECEIVABLE (Continued)

Loans made to eligible borrowers under the Clean Water and Drinking Water SRF's may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Agency has loans outstanding of \$30,559,362 and \$22,929,776 at June 30, 2012 and 2011, respectively, that upon fulfillment of these requirements by the borrower, could be forgiven at some future point. For purposes of the basic financial statements, the Agency recognizes principal forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2012 and 2011 was \$803,813 and \$163,156, respectively. The amounts are included in loan principal forgiveness in the statement of revenues, expenses, and changes in net assets.

4. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS

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

At June 30, 2012, the carrying amount of the Agency's cash deposits was \$21,282,577. The bank balance was \$23,485,995 as of the same period, of which the entire amount was covered by the Federal Depository Insurance Corporation (the "FDIC").

At June 30, 2011, the carrying amount of the Agency's cash deposits was \$3,468,358. The bank balance was \$3,472,569 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 \$19,080,391 which were FDIC insured under the Certificate of Deposit Account Registry Service (CDARS) at June 30, 2011.

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

<u>Description</u>	<u>2012</u>	<u>2011</u>
Cash on hand.....	\$ 100	\$ 100
Deposits with financial institutions	21,282,577	22,548,749
Institutional money market accounts – government portfolio.....	164,870,070	161,788,293
Total cash and cash equivalents.....	<u>\$186,152,747</u>	<u>\$184,337,142</u>

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

	<u>2012</u>	<u>2011</u>
Checking accounts and demand deposits	\$21,282,577	\$ 3,468,358
Nonnegotiable certificates of deposits:		
0.19% dated 4/28/11, due 7/28/11	0	9,025,392
0.12% dated 6/9/11, due 9/8/11	0	10,054,999
Total	<u>\$21,282,577</u>	<u>\$22,548,749</u>

The institutional money market funds – government portfolio had credit ratings of AAAM/AAA-mf and Aaa/AAAm by Standard and Poor's and Moody's at June 30, 2012 and 2011, respectively.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

4. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)

The Agency's investments consisted of the following at June 30, 2012:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2012</u>
U.S. Agency Securities:				
Federal National Mortgage Association.....	\$ 16,088,252	2012 - 2019	4.100% - 6.160%	AAA/AA+
Federal Home Loan Mortgage Corp.....	10,741,422	2012 - 2026	5.750% - 6.750%	AAA/AA+
Federal Home Loan Bank	<u>10,375,765</u>	2013 - 2023	4.375% - 5.625%	AAA/AA+
Subtotal	<u>37,205,439</u>			
Municipal Bonds:				
Texas - College Student Loan Refunding...	1,409,400	2017	5.00%	Aaa/AA+
Washington State.....	894,980	2019	4.50%	Aa2/N/A
Oregon State	14,358,188	2013 - 2023	3.044% - 5.435%	Aa2/AA
New York State.....	<u>10,364,893</u>	2013 - 2016	3.666% - 4.700%	Aa2/AA
Subtotal	<u>27,027,461</u>			
Collateralized Repurchase Agreements:				
Societe Generale.....	646,400	2013	7.200%	A2/A
Bayern LB.....	1,073,225	2016	3.75% - 5.60%	Aaa/AAA
Westdeutsche LB	<u>6,426,533</u>	2019	6.280%	Aaa/AAA
Subtotal	<u>8,146,158</u>			
Guaranteed Investment Contracts:				
Bayern LB.....	8,263,086	2020	3.75% - 5.33%	Aaa/AAA
FSA Capital Management	8,488,675	2024	4.710%	Aa3/AA-
FSA Capital Management	12,562,467	2025	4.670%	Aa3/AA-
FSA Capital Management	6,719,014	2027	4.793%	Aa3/AA-
FSA Capital Management	864,318	2028	5.060%	Aa3/AA-
Transamerica	8,428,879	2026	4.770%	A1/AA-
Citigroup Financial Products	11,509,743	2027	4.805%	Baa2/A- **
GE Capital Corp	<u>5,535,008</u>	2029	4.498%	A1/AA+
Subtotal	<u>62,371,190</u>			
Total Investments	<u>\$134,750,248</u>			

**As of June 30, 2012, this GIC Provider's rating was downgraded below the minimum rating requirements as disclosed in Note 1. The Agency determined the downgrade did not warrant subsequent action.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

4. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)

The Agency's investments consisted of the following at June 30, 2011:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2011</u>
U.S. Agency Securities:				
Federal National Mortgage Association.....	\$ 17,395,035	2012 - 2024	1.875% - 6.160%	AAA/AAA
Federal Home Loan Mortgage Corp.....	9,921,123	2011 - 2028	4.875% - 6.875%	AAA/AAA
Federal Home Loan Bank	<u>9,697,131</u>	2013 - 2023	3.750% - 5.625%	AAA/AAA
Subtotal	<u>37,013,289</u>			
Municipal Bonds:				
Texas - College Student Loan Refunding...	1,370,340	2017	5.00%	Aaa/AA+
Washington State	856,636	2019	4.50%	Aa2/N/A
Oregon State	14,582,238	2012 - 2023	2.794% - 5.435%	Aa2/AA
New York State.....	<u>13,293,695</u>	2012 - 2016	3.407% - 4.700%	Aa2/AA
Subtotal	<u>30,102,909</u>			
Collateralized Repurchase Agreements:				
Societe Generale.....	1,222,200	2013	7.200%	Aa2/A+
Bayern LB.....	1,298,325	2016	3.75% - 5.600%	Aaa/AAA
Westdeutsche LB	<u>7,164,629</u>	2019	6.280%	Aaa/AAA
Subtotal	<u>9,685,154</u>			
Guaranteed Investment Contracts:				
Bayern LB.....	9,291,488	2020	3.75% - 5.330%	Aaa/AAA
FSA Capital Management	9,052,083	2024	4.710%	Aa3/AA+
FSA Capital Management	13,245,533	2025	4.670%	Aa3/AA+
FSA Capital Management	7,207,083	2027	4.793%	Aa3/AA+
FSA Capital Management	903,022	2028	5.060%	Aa3/AA+
Transamerica	8,959,190	2026	4.770%	A1/AA-
Citigroup Financial Products	12,177,850	2027	4.805%	A3/A
GE Capital Corp	<u>5,770,141</u>	2029	4.498%	Aa2/AA+
Subtotal	<u>66,606,390</u>			
Total Investments	<u>\$143,407,742</u>			

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

4. CASH EQUIVALENTS AND RESTRICTED 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, 2012 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.....	\$ 37,205,439	\$14,839,415	\$ 5,005,905	\$ 9,364,508	\$ 7,995,611
Municipal Bonds	27,027,461	4,030,660	12,184,712	8,480,446	2,331,643
Collateralized Repurchase Agreements	8,146,158		1,719,625	6,426,533	
Guaranteed Investment Contracts	62,371,190			8,263,086	54,108,104
Total	<u>\$134,750,248</u>	<u>\$18,870,075</u>	<u>\$18,910,242</u>	<u>\$32,534,573</u>	<u>\$64,435,358</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. ARRA grants are excluded from the 20% state match requirement.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

5. CAPITALIZATION GRANTS (Continued)

(a) Clean Water State Revolving Fund (CWSRF) (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, 2012:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2010:		
Federal award	\$13,681,000	\$ 203,630
State match	2,736,200	0
2011:		
Federal award	9,915,000	9,841,471
State match	1,983,000	0
2012:		
Federal award (applied for August 2012)	9,486,000	N/A
State match (applied for August 2012)	1,897,200	N/A

(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. ARRA grants are excluded from the 20% state match requirement.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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, 2012:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2006:		
Federal award	\$ 8,229,300	\$ 729,094
State match	1,645,860	0
2007:		
Federal award	8,229,000	1,634,313
State match.....	1,645,800	0
2008:		
Federal award	8,146,000	2,219,479
State match.....	1,629,200	0
2009 - 2010 ARRA: (American Recovery & Reimbursement Act of 2009)	19,500,000	303,410
2009:		
Federal award	8,146,000	6,024,788
State match.....	1,629,200	0
2010:		
Federal award	13,573,000	11,401,320
State match.....	2,714,600	0
2011:		
Federal award	9,418,000	9,418,000
State match.....	1,883,600	1,883,600
2012:		
Federal award (applied for August 2012).....	8,975,000	N/A
State match (applied for August 2012)	1,795,000	N/A

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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, 2012 and 2011.

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 \$44,910 and \$42,935 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 were \$18,859 and \$15,379, 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, with renewal options, for the rental of its corporate offices. The Agency incurred rent expense of \$59,305 and \$57,039, during fiscal year 2012 and 2011, respectively. 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>
2013.....	<u>\$52,405</u>
Total	<u>\$52,405</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

8. PROPERTY AND EQUIPMENT

The summary of changes in property and equipment at June 30, 2012 are summarized below:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2012</u>
Cost:				
Computers	\$ 53,987	\$4,241		\$ 58,228
Furniture and fixtures	21,700	3,898		25,598
Equipment.....	30,601	1,638		32,239
Leasehold Improvements	29,701	0		29,701
Total cost	<u>135,989</u>	<u>9,777</u>	<u>\$ 0</u>	<u>145,766</u>
Accumulated depreciation:				
Computers	51,344	2,225		53,569
Furniture and fixtures	21,312	649		21,961
Equipment.....	23,094	4,424		27,518
Leasehold Improvements	11,138	1,485		12,623
Total accumulated depreciation	<u>106,888</u>	<u>8,783</u>	<u>0</u>	<u>115,671</u>
Net capital assets	<u>\$ 29,101</u>	<u>\$ 994</u>	<u>\$ 0</u>	<u>\$ 30,095</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. These amounts are subject to audit and adjustment by the federal government. Any disallowed claims, including amounts already collected may constitute a liability of the Agency. 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, 2012, 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 loans to qualified borrowers. The amount of these Board designated funds totaled approximately \$26,604,000 at June 30, 2012.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

11. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions and injuries to employees. 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. There were no significant reductions in insurance coverage from the prior year, and there have been no settlements that exceed the Agency's insurance coverage during the past three years.

12. SIGNIFICANT CONCENTRATIONS

Current Economic Conditions

Beginning in 2008, the U.S. economy experienced uncertainty and instability in the financial markets and a number of other sectors of the economy. The Congress, U.S. Treasury and the Federal Reserve have taken a number of actions in an attempt to provide liquidity to the credit markets, to save and create jobs and to stabilize the overall economy. At this time the impacts of these actions cannot be determined.

Existing collateralized investments and counterparty financial institutions are being closely monitored to ensure contractual obligations are being met and contingency plans are being developed, should action be required. The present turmoil in the financial markets limits the qualifying investment alternatives for existing cash, bond proceeds and grant funds. The interest rates on secure investments continue to be at or near historic lows and long-term investments required by the Agency's financing model in the Clean Water SRF and the Drinking Water SRF may subject those programs to additional investment interest rate risk. Lower investment interest rates also reduce the Agency's loan capacity, the dollars available to fund new loans, while maintaining the same rate of loan interest subsidy. The Agency also continues to monitor market conditions for the economic feasibility of issuing refunding bonds.

Like other areas of the country, Rhode Island communities are experiencing budget shortfalls. The impact of these economic conditions on the Agency's borrowers and their ability to continue to make timely loan repayments is difficult to determine; however, the loans are secured predominantly by revenues from essential water and sewer services. Some communities, particularly smaller communities, may generally be more vulnerable to the effects of downturns in the economy. The Agency continues to monitor the financial status of its borrowers as part of an overall loan portfolio monitoring process.

13. SUBSEQUENT EVENTS

Management has evaluated potential subsequent events through September 28, 2012, the date the financial statements were available to be issued.

On September 17, 2012, the Board issued a resolution authorizing the issuance of up to \$81,830,000 of Water Pollution Control Subordinated Refunding Revenue Bonds, Series 2012B.

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